

MAR 14 1933

THE BUSINESS WEEK :

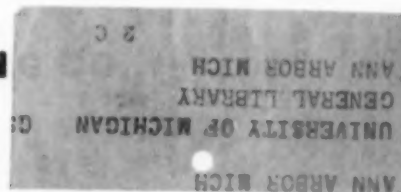
BUSINESS INDICATOR



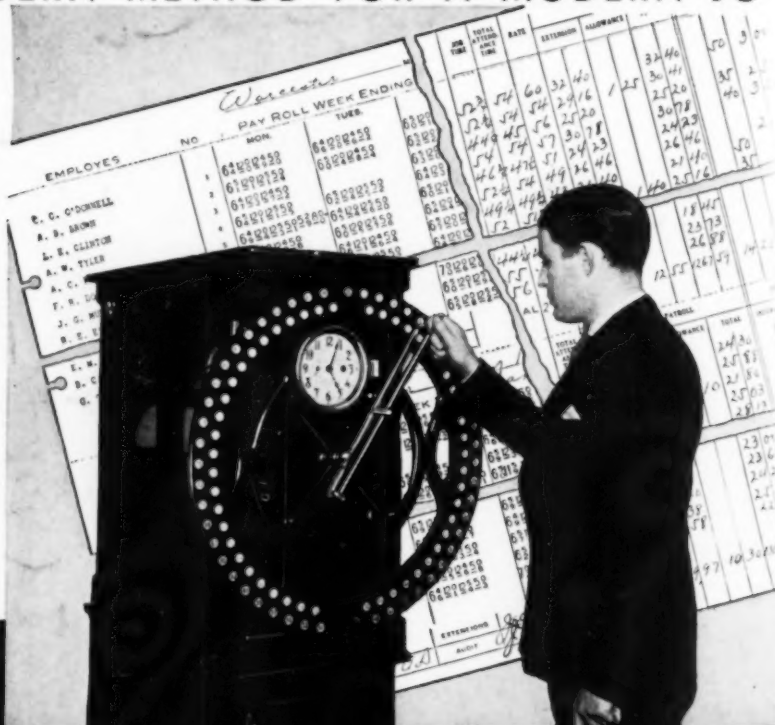
Business, as the sour jest goes, has been on a holiday along with the banks. . . . A country accustomed to transacting 90% of its business by check cannot switch in a week to a cash-and-carry system. The very magnitude of the catastrophe has dulled appreciation of its full significance. That in part explains the quiet good humor of the country. There are other reasons. One is a feeling of real relief that the banking situation has been brought to an open crisis where it can be dealt with adequately, not piecemeal. Out of the disaster, the country believes it will get a really sound banking system, upon which foundation recovery can be built. Above all, it has felt confident the President would take vigorous and prompt action. Any considerable delay in restoring banking facilities would change the calm public temper swiftly into blazing wrath. . . . Statistics mean little this week. They do not yet reflect the full effect of the current conditions. One important constituent of our index of business activity—check payments—is entirely missing. . . . Retail automobile sales have stopped, which has backed up into curtailment of steel mill operations. . . . Residential construction seems to be picking up, but public works programs are being held in abeyance. . . . Power consumption declined only slightly, and chiefly in New England. . . . Currency outstanding reached fantastic levels as our people tried to convert some \$40 billions of bank deposits into cash over night. . . . This is bottom—there is no way to go but up.

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THE BUSINESS WEEK (with which is combined The Magazine of Business) March 15, 1933, No. 184. Published weekly by McGraw-Hill Publishing Company, Inc., 300 West 42nd Street, New York, N. Y. James H. McGraw, Chairman of the Board; Malcolm Muir, President; James H. McGraw, Jr., Vice-President & Treasurer; C. H. Thompson, Secretary. \$7.50 per year, in U.S.A. and possessions; \$10.00 or £2.10s. per year in all foreign countries. 20c per copy. Entered as second-class matter February 15, 1930, at the Post Office at New York, N. Y., under the act of March 3, 1879. Printed in U.S.A. Copyright 1933 by McGraw-Hill Publishing Company, Inc.

Printed by The Schweitzer Press, N. Y.

THE BUSINESS WEEK

MARCH 15, 1933

New Deal, New Money, New Banks

Roosevelt's bold emergency plan to end the holiday, marks a climax in the long deflation, puts the government behind the strong banks, weeds out the weak ones to clear the way for sweeping reforms.

DEFLATION reached its dramatic climax when a new President as his first official act was obliged to suspend all banking in the United States, and suspend redemption of our currency in gold.

Whether his program for dealing with the banking emergency is inflationary or deflationary is still being debated. The answer seems to be that on the whole it is inflationary. It proposes to close indefinitely a large number of banks which by no stretch of imagination can be classed as "strong"—perhaps 5,000 of them—and that certainly is deflation. But the issuing of emergency currency, based on any "good" asset of a bank, or even on its bare note, to almost any amount needed, is inflation with a vengeance. It turns frozen loans into currency on demand.

Almost a Guarantee

The President's emergency program is bolder than anyone had predicted. Reduced to baldest terms, it is: 1. To reopen at once the strongest banks with a governmental o.k. which has almost the effect of a guarantee. 2. A drastic weeding out of weak banks, with a ruthlessness tempered only by an elaborate plan for reorganization or salvage of assets. 3. An issue of emergency currency, really scrip with Federal imprimatur. 4. Loans direct from the Federal Reserve to private firms that have government obligations to offer as security. Presumably this is to take care of business concerns whose banks may not be able to reopen.

The program was criticized on the floor of the Senate and in the lobbies as "another victory for the big New York banks." It was argued that the whole formula is based upon liquidity, which put the New York banks in a favored position. Senator Long voiced another complaint, that the New York banks had loaded small client banks with bonds, foreign and domestic, and now it appears such bonds have no rating as collateral for currency. Only governments and quick, self-liquidating commercial paper, of which New York has a monopoly, are recognized as a currency base. Senator La Follette

coined the best phrase of the debate when he remarked that the depression had taught us all many things, one of them that "bank deposits are no safer than a working man's job." But all this was steam-rolled by the majority.

Congress obviously stood ready to submerge politics, its constitutional privileges, and even differences of conviction as to proper measures for currency and banking legislation, all as the price of quick action.

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To give readers this complete story of the banking crisis, gauge its effect on business, interpret the emergency measures and the Administration's moves to end the emergency, the presses were held for the first time in the history of this paper, but most subscribers should receive copies as promptly as usual.

So doing, Congress undoubtedly was expressing the will of the people, and correctly reading the country's temper. Secretary Woodin made articulate the feeling of every thoughtful observer when he expressed his amazement and his gratitude over the calm good humor of a people deprived of a medium of exchange, contemplating nobody knew just what losses, and suffering an almost complete paralysis of trade. But it was equally apparent that the good humor was built only upon the belief that the President would deal vigorously with the emergency, and that the calm would

be shattered by blazing wrath if there was any unnecessary delay.

The Administration's problem is easy enough to state but almost incredibly difficult to solve. The problem was merely to restore banking facilities. But it was plain that the banks had closed because the public (here and abroad) had no confidence in them. Nothing has happened since Mar. 4 to improve that confidence—quite the contrary. Therefore, merely to reopen the banks with a supply of nice new money, or of scrip, would simply touch off new runs.

There was a plan to issue scrip to the amount of the good assets of the banks—not just the quick assets; there would be no necessity of confining a scrip issue to liquid assets for the scrip would not have to be redeemed for a long time to come. New York City banks, for example, had an issue of \$250 millions engraved and ready for distribution. Depositors were to be informed that they could withdraw 100% of their deposits, unrestricted, in scrip. But Washington had to give permission, and the permission was not forthcoming. Secretary Woodin saw, rightly, that 40 or 50 issues of scrip from as many different cities would create serious exchange difficulties, with one city's issue selling at a discount against another's, if, indeed, some issues would be acceptable at all far from home. It would be infinitely better if a national medium of exchange were to be worked out.

Good Banks, Bad Banks

There was another problem which went deeper. Whether scrip or currency, the amount to be rationed to each bank would necessarily be in fairly accurate proportion to its good assets—or its quick assets. The bank then would have to notify its depositors that they could withdraw 80% of their funds, or 10% as the case might be. In other words, the government or the clearing houses would paste a large and clearly legible index figure on the front window of every bank revealing its condition.

Banking economists privately estimated this would smash perhaps 5,000 banks. Most of them would be small institutions outside the Federal Reserve. But the index of soundness, or liquidity, of some of the large institutions in fairly large-size cities might be a nasty shock. It was futile for the authorities to argue that the liquidity of a bank is not a true index of its soundness—many slow assets are perfectly sound. The point was that the public was not going to make any nice distinction of the kind,

and for a bank to reopen on a 10% basis, with another across the street, or in the next town, offering 80% service, was merely to announce that the weaker bank was soon going out of business.

There are a lot of bankers who still hope against hope that God, or deflation, or the United States government, or something, is going to save their institutions. Therefore they are going to postpone as long as possible any public announcement of their real condition. The pressure to which the Administration must have been subjected to prevent any action that thus does separate banking sheep from banking goats can readily be imagined.

Reform Comes Next

It was equally apparent that as soon as emergency measures had been taken to improvise some kind of banking facilities for the country, the Administration would have to turn its attention to reform of the whole banking system. It was plain enough that unless there was a fundamental reform of the system, the public would have no confidence in it, and would never support it. Restrictive regulations might prevent the public from wrecking the present system immediately, but as soon as the depositors could, they certainly would make bank closings permanent and irrevocable by the simple process of withdrawing all funds.

The President sensed this, and announced it as his major objective. He could not, of course, frame an adequate new banking act in 5 days, so he asked Congress for a breathing spell of 3 weeks. At the end of that time, the Administration program will be framed.

Promises No Relapse

When his program for permanent banking legislation appears, it will, so the President promises, "prevent the recurrence of the evils of the past." It will prevent "speculation with the funds of depositors and other violations of positions of trust."

Though he has given no indication that this is true, it is generally taken for granted that he will move toward a unified system, since every student of American banking has long pointed to disunity as its principal defect. A necessary corollary, it would seem, would be branch banking. A third major question is the guarantee of bank deposits, for which strong sentiment exists in Congress. Notable among its proponents is Steagall (Ala.) who is a power in the House. The President apparently is working away from this idea. He hopes, it is indicated, to set up a system of such strength, surrounded by so many safeguards, that deposit guarantee would be superfluous.

Constitutional limitations may make it impossible to forbid states to charter banks—the point has been vigorously debated—but in the homely phrase of

the backwoods, there are several ways to skin a cat. Authority of the federal government to do anything it likes with Federal Reserve legislation is unquestioned. The Federal Reserve might refuse to permit its members to transact any business whatever with non-members; that is just one way of getting unification, but a more effective one can hardly be imagined.

For the moment, opinion of the bankers themselves favors something of the sort. But enthusiasm, like champagne, has the defect of going flat when long uncorked. Sincere advocates of banking reform hope the Administration will be able to push its measures through with great promptness, before the forces of opposition have time to rally, recover their morale, and start up the old process of compromise which has nullified so much effort at banking reform. For example, the Glass bill—none too strong at the outset—was largely milk and water when it finally passed the Senate. And even that measure was pigeonholed by the House.

Mr. Aldrich Speaks

Advocates of thorough-going reform were mightily heartened by gaining a recruit from the very heart of Big Banking—the biggest commercial bank in the world, in fact—when Winthrop W. Aldrich, head of the Chase Bank, issued a statement which may fairly be described as sensational.

Mr. Aldrich favored a single banking system. He declared unreservedly for separation of security affiliates from commercial banks. He went much further than that—he declared there should be no interlocking of directors or officials between any private investment banking institution and any commercial bank. And more, he insisted private banking institutions should not be permitted to receive deposits unless they published the same statements of condi-

tion and submitted to the same regulation as commercial banks. That was fairly pointed, for Morgan partners sit on the boards of some of Chase's most powerful rivals, and the Morgan private bank takes deposits. Even the most cynical critics, however, conceded that, self-serving though Mr. Aldrich's proposed policy undoubtedly was to some degree, he nevertheless undoubtedly sincerely felt he was advocating measures for the general good of banking and of the country.

Senator Glass Replies

Senator Glass put into words the general reaction when he remarked drily that most of the things the Chase chairman proposed had been vigorously fought by the Chase institution when the senator drafted such provisions into his bill. For his part, he was quite willing to rewrite his bill again and include every one of Mr. Aldrich's suggestions.

Of course, the country immediately began to debate whether it was off the gold standard. Secretary Woodin stoutly asserted it was not. It certainly is, by the usual definition; the free market in gold has been abolished. But the Secretary was correct in contending that the 40% gold reserve behind the ordinary currency is intact. The proposed emergency currency is something else again. It is rather frankly "managed currency" bearing no fixed relation to gold.

Dealings in foreign exchange here and abroad were suspended, but various bootleg transactions, and clues to be had from movement of certain key prices, indicated that the rest of the world does not believe the dollar will soon be redeemable in gold of the old weight and fineness. Perhaps the best clue came from Canada, where the U. S. dollar dropped to parity with the Canadian. The latter had been at about 14% discount compared with ours.

Washington Reads the Signs

With Glass (and his proposed aides) out of the Treasury and Baruch out of the capital, it looks as if Roosevelt is leaning to the left.

WASHINGTON—Resisting terrific pressure from New York banking interests, and most of his conservative advisers, President Roosevelt declined to commit himself squarely to gold in his inaugural address, tacitly recognizing some form and degree of inflation as at least a temporary necessity.

This explained in part the refusal of Senator Carter Glass to accept the Treasury portfolio. Roosevelt would not agree to as conservative a course as Glass insisted upon.

Even more interesting was Roosevelt's refusal to permit Glass to name 2 members of the firm of J. P. Morgan & Co. as his assistants.

These were Russell Cornell Leflingwell and S. Parker Gilbert, both of whom were in the Treasury as assistant secretaries during the latter part of Woodrow Wilson's Administration, but both of whom have since entered the "House on the Corner."

Glass wanted 2 things in insisting upon these appointments. In the first



WASHINGTON ACTS—President Roosevelt found a bank crisis on the White House doorstep when he moved in, called all hands on deck to deal with it. Here are some of the "hands" leaving the Executive Mansion after a hard session. Left to right, Arthur A. Ballantine, Under Secretary of the Treasury; Secretary Woodin; George W. Davison, New York banker, who devised the 1907 scrip plan.

place he knew the men, having worked with them. He did not want to waste a lot of time and energy "breaking in" new assistants, no matter how valuable they may have been to the Democratic party in the recent campaign.

In the second place he believed that the naming of these 2 men, both of whom made outstanding records with the government, and Gilbert as the "uncrowned king" of Germany after he left the Treasury Department, would help restore confidence.

But as Roosevelt would give the Virginia senator neither the assurance of sufficient conservatism to meet his views, nor the appointment of the Morgan partners as his assistants, Glass declined the place and Woodin was named.

Friends of the President point out

that not only from the standpoint of practical politics, but also considering the President's relations with Congress, such appointments would have been murderous.

For example, some rather drastic remedies may have to be applied. In the final working out of the banking situation, it seems highly probable the total number of banks in this country may be as sharply curtailed as it is in Britain or Canada.

This will antagonize the Progressive group. Huey Long, of Louisiana, fought branch banking on that very theory, he stated many times. The old argument of concentrating the banking power in a few hands might be advanced.

And if such a proposal came from a

Treasury Department bristling with former Morgan partners, the fur of the Progressives would be all rubbed wrong in advance.

COUPLED with the talk of inflation is a good deal of new discussion of silver. Senator Burton K. Wheeler, of Montana, who has been seeing a good deal of the new President, has assured friends that the President is for bimetallism. The President is represented as opposing the old ratio of 16 to 1, not on economic grounds, but because it has bad political connotations. It is too reminiscent of theories and persons repeatedly spurned by the country.

The Louisiana Kingfish just laughs at Wheeler, as he does at other senators who have had their pet ideas approved in recent visits to Albany, Hyde Park, and Warm Springs.

"He said 'Fine' to me," Senator Long commented, "and he said 'Fine' to Joe Robinson. He says 'Fine' to everybody."

The silver people were tremendously encouraged at the sharp rise in its price on the London exchange just after the United States started its bank holiday. They insist Roosevelt will not wait for a distant international conference on silver, as promised in the Democratic platform, but that he will do something for silver on an emergency basis.

Just what they expect is rather nebulous. Actually all the indications are for a firm stand on preserving the gold standard so far as international transactions are concerned.

ASCENDANCY of William G. McAdoo in the new Administration is gall and wormwood to the Al Smith following, and to some other factions as well. Three cabinet members, Secretary of State Hull, Secretary of Commerce Daniel C. Roper, and Attorney-General Homer S. Cummings (temporary) bear the McAdoo brand.

The anti-conservative turn of the Administration, incidentally, not only kept Glass out of the cabinet, but also resulted in Bernard M. Baruch's going back to New York the day after inauguration, just as the conferences on the banking emergency were starting.

Baruch joined many other New York advisers in insisting on gold, plus a strong statement that the budget would be balanced at once.

This split represented a victory for Professor Moley and other university-trained advisers.

"Baruch," they told the President, "is too dogmatic. He is not open to a change of mind through pressure of logic and reason."

"He sure is dogmatic," commented a senatorial admirer of Baruch. "He insisted on their starting off with the fundamental idea that 1 and 1 make 2. He was dogmatic as hell about that."



INAUGURAL CROWDS—In ancient Rome, the augurs watched the heavens for a sign when a new consul entered his first day of office; the appearance of lightning caused the suspension of all business in the public assemblies. Americans, too, watched for signs and portents as their new President took office and the appearance of holiday proclamations caused the suspension of business.

Business on a Holiday

Credit, the force of habit, high ingenuity and a willingness to take a chance in the discharge of its responsibilities has kept business going without benefit of bankers.

HAVING struggled through 3 years under many handicaps, business has demonstrated its cellular vitality by a crowning feat — proceeding without banks. In the face of a 100% closure of financial agencies, necessary activities continued. What keeps things moving during such a "holiday"? Answer: credit and force of habit. The elasticity of the national spirit helped.

A Russian newspaper correspondent discussed the matter with amazement and a hint of tears: "Look!" said he. "Your country is in the middle of a revolution—and everybody is laughing!"

When closed bank doors freeze cash and assets, the individual mind turns to the animal necessities; food, shelter, clothing. Most people had things to wear and a roof. Staple eatables shouldered out other commodities to become the one immediate concern.

Back to Credit

Those with credit at groceries used it to stock up on potatoes and canned goods. Those with cash jostled each other in the low-priced chain stores. Individual sales of \$100 or more for a single order of staples created temporary shortages of certain items. Lack of currency drove many chains off a cash basis. For a time units of A.&P., Kroger and other chains accepted small checks for exact amounts of purchases from established customers. Local and division managers were forced by the sudden crisis to act on their own authority. Use of coupons, a device already employed in veteran holiday towns like Detroit, was greatly extended.

Generally, these books were distributed to concerns, the chain keeping the company's check for collection after the emergency. Individuals with established credit also bought books for future use. Large concerns acted on their own. The Detroit Steel Co. paid employees partly in grocery orders. Companies in Wyandotte, Mich., distributed payrolls in \$5 and \$10 checks, making them more acceptable to retailers.

The Dow Chemical Co., Midland, Mich., paid its force in 20¢ company coins, made of its own Dowmetal, a magnesium alloy, guaranteeing future redemption in cash. A Detroit oil company arranged with the A.&P. to honor scrip issued to employees.

In Ohio, the A.&P. issued coupons in \$1 denominations which companies could purchase with checks and distribute to employees. A.&P. headquarters in New York would make no statement on whether such a policy would be adopted for all its 15,000 stores. Management is cut into districts whose executives are allowed great latitude in the absence of specific orders. Kroger made wide use of the coupons. Grand Union Grocery and others were hastily laying plans to follow suit.

Even cash transactions created unprecedented problems. Banks were temporarily locked against deposits as well as withdrawals. What was to be done with cash receipts? Generally these treasures were concentrated in one location, extra police details and special de-

tectives being called in to guard those of big organizations. Management faced also the difficulty of purchasing new supplies. Secretary Woodin's rule that banks could function to take care of food transactions was a permission, not an order. There still remained the question of whether individual banks could or would extend this service to customers.

As in other lines, food manufacturers and wholesalers kept going on faith. Customers who were good credit risks before the suspension were considered good thereafter. General Foods Sales Co. wired divisional offices: "Continue to solicit business from customers of good credit standing on basis of open account or check subject to collection. Cash discount allowed to all who customarily discount."

Cautious on Checks

In general, large stores accepted checks for merchandise, but required the payment to be exactly or but a little over amount of purchases. Returned goods could not be turned into cash, were usually credited or required to be taken out in similar amounts of merchandise. Many non-food items were returned to be swapped for groceries. Indianapolis merchants asked customers paying with checks to leave merchandise until banks could be asked concerning balances. Cleveland stores, taking exception to the rule, accepted no checks; previous checks not cleared through banks were returned to senders. In Chicago, Sears, Roebuck and Montgomery Ward returned checks from doubtful neighborhoods, requesting postal money orders instead.

Credit stores, notably Gimbel's, leaped to the opportunity, discarded large advertising displays of bargain sales to join in exploiting the present value of charge accounts. As available cash was drawn into retail tills, credit sales mounted.

The emergency proved a good rating to be desirable above all things. Consumers, retailers, distributors, manufacturers, producers accepted and extended credit to the limit. Checks against refrigerated deposits were qualified by "subject to collection," no one caring to assume payment of paper drawn on banks that may fail to pay out. In this universal relaxation there is certain to be much paper that is going to snap back and smite the holder on the nose.

Fear Over-Extension

Credit agencies are concerned, especially over the possibility of over-extension in the purchase of goods. Subscribers to the National Credit Office are warned that the standing of "concerns, other than those considered prime risks, located in the few districts which appear to be seriously affected, is being closely questioned." The importance of up-to-the-minute reports is stressed. Established concerns which have furnished recent balance sheets are given every consideration. R. G. Dun & Co. & The Bradstreet Co. advised that goods ordered or in transit be accepted as usual, that moderate purchases be allowed in the meantime. New York's resident buying offices reported that cancellation in clothing lines was not heavy and that these were being accepted by manufacturers. This was taken to indicate a belief on the part of manufacturers that there will be inflation with price up-

pings when the smoke has cleared away. Insurance companies stretched regulations to protect policy holders. Checks in payment of premiums were accepted—in some cases subject to collection. Companies assured policyholders that claims on life, fire and casualty policies would be scrupulously met. Some companies settled claims with undated checks, to be filled in when banks resumed business. Fire companies can wait 60 days before paying claims over \$100; insistence on this right is supposed to have reduced recent losses from incendiarism. Almost unnoticed, the New York legislature made a dictator of its Superintendent of Insurance.

Most amazing was the extension of credit to services where cash had been the rule. Railroads accepted checks "wherever possible." So did air lines. (Sky-carriers emphasized their C.O.D. facilities, allowing persons stranded far from home to be delivered on payment of passage by friends or relatives.) Such measures were insufficient to scotch the inevitable decline in passenger traffic. It caused cancellation of 12 New Haven railroad trains, including the crack *Yankee Clipper* and *Merchants' Limited* between Boston and New York. There were similar temporary suspensions by other roads, and by bus lines. Some carriers sustained schedules, but cut down the number of cars per train. Steamer lines and cruise services out of New York advertised acceptance of

checks. (Papers reported the breakdown of one liner in New York harbor. Her name was *American Banker*.)

The Interstate Commerce Commission eased what threatened to be a serious condition in freight movement by ruling that the "bank holiday" should be considered as any other legal holiday and "counted out" in collecting for shipments. (Regulations permit carriers to extend 48 hours credit, in special cases 96.) Demurrage and storage charges were suspended for duration of the holiday.

Coupons for "Gas"

Utility companies helped steady the public mind by continuing all services, not pressing consumers for payment, accepting checks as tendered subject to the collection clause. Closing of New York banks tied up the cash of big groups—funds of subsidiaries flow into New York and usually are drawn from there to meet payrolls and other cash disbursements. Gasoline distributors, faced with a drying up of receipts at the pump, issued coupon books, accepting payment in checks. This enabled them to compete with privately-owned stations which earned future good-will by retailing gas on credit.

Most unhappy was the traveler far from home. Cries for help brought wired funds via Postal or Western Union. These companies placed a \$100 limit on such transfers. Post Office money orders rushed by air mail also helped. Florida was enjoying an unexpectedly good tourist season when the sudden "bank holiday" caused an exodus. There was a good-natured scramble for cash, checks being accepted wholesale with a blind faith. Not so fortunate were persons stranded in foreign lands with dollar documents. Established travel agencies took care of their own, customers of banks with foreign branches were cared for there, but tourists barred from regular facilities by stoppage of exchange in dollars or marooned in out-of-the-way towns were at the mercy of whatever quotations foreigners offered on American drafts.

Babies, Bootleggers

The historian, digging through files to see just what happened in the crisis, will discover plenty of items to amuse him. During an early bank run a thrifty Brooklyn mother hired out her baby to women who used it to get preferred position in the line. She charged 25¢ per trip. The Elmira, N. Y., reformatory had to hold over paroled prisoners since their discharge money was paid in checks which couldn't be cashed. Theaters took I.O.U.'s. Courts were hampered because fines and fees usually demand cash. An exception was the case of a New York bootlegger convicted and fined \$100. He produced a \$500 bill, had to wait until \$400 in small fines had accumulated.



DEPOSITORS—Inauguration Day saw almost all banks closed, climaxed a period of increasing financial pressure. On New York's East Side, many foreign-born depositors journeyed to their banks to see for themselves. Here are crowds before the powerful Bowery Savings Bank, the country's largest.

Bankless Prices

Closing of commodity exchanges sends prices haywire. Our relation to the gold standard is an important factor in prices of commodities dependent on foreign exchange. Outlook is for stable or higher prices.

COMMODITY prices have gone bootleg. There are no official quotations. Wheat and cotton exchanges closed with the banks, so did the stockyards and so did other wholesale commodity markets.

The first effect of the bank holiday was the cancellation of orders backward and forward. Sellers did not know how they would get paid and it seemed safer to hold their commodities than to exchange them for questionable checks. Buyers were doubtful whether they could pass the goods along. Simultaneous inflation and deflation of prices in different quarters was not uncommon when word came to a wholesaler that the mills had withdrawn prices while at the same time merchants had canceled.

This confusion was augmented by the absence of official quotations. Spectacular changes in price have taken place unofficially. For example, spot cotton closed at 6.3¢ a pound on the last trading day before the banking holiday, but was quoted as high as 8¢ unofficially on the so-called gutter market. Of course, there are no records of actual sales at this price. It sent shivers of delight up the spine of many a Southern business man. The cotton cloth producers didn't know whether to shout or weep. They did both. Cotton cloth prices alternately advanced and fell, depending upon what cotton price rumor had the spotlight.

Mathematical sharks attempted to calculate values of cotton in the United States by figuring back from the Manchester market which had remained stable, but that involved figuring exchange. If the dollar had depreciated, then the fact that cotton prices remained unchanged actually presaged a sharp advance in the domestic market. But since exchanges were closed, this calculation was merely a substitution for the jig-saw puzzle which occupied the minds of brokerage-house habitués. An advance of almost 2¢ a bushel of wheat on the last trading day before the bank holiday was explained by wisecracks as a flight from the dollar and a rush into commodities.

Mrs. Average Housewife was suddenly pulled up sharp when she went to her favorite butcher shop and discovered that pork which for some time had been tagged 11¢ was suddenly marked 19¢, that lamb and beef had advanced 3¢. Back of the rise in pork is a sensational advance of hogs from \$3.43 to \$4.28 in one week. The explanation is simple. There were only

one-half the usual receipts of hogs at the stockyards. This was due in part to the closing of the yards, in part to the inability of packers to make payments for hogs because of the banking holiday, in part to the widespread reluctance of the farmers to ship hogs when they expected sharp advances because of a possible currency inflation.

Other commodities also showed erratic unofficial fluctuations. Sugar went up from 1¢ to 2¢ a pound because financial restrictions prevented the smooth movement of the commodity from the warehouses to the consuming markets. Rubber, for the same reason, advanced a full cent. Most women will read with only wistful and academic interest, that there was a flurry in diamond trading. Platinum advanced 30% and oriental rugs 25%. In fact, all luxuries dependent upon foreign trade took sharp upturns.

There has been no change in the fundamental statistical position of commodities. Large stocks are still in the hands of producers, and no new markets have been opened to show that consumption has suddenly increased. An uneven drying-up of business, especially at the

source, rather than increased consumption, is the chief reason for the price advances. Shortages, due to withholding of goods by producers or to difficulties in financing shipments may be looked on as temporary.

We must await further developments to find out whether there will be a general flight from the dollar to commodities. Even if such a flight develops, the increase in domestic prices must remain temporary, and will flatten out when holders of commodities want to dispose of them. Should we remain off the gold standard and should the dollar remain off in value in terms of foreign exchanges, the advances that have been scored by those commodities that we export and import may hold for some time. Under those conditions, there is some justification for the unofficially reported advances in cotton, pork and wheat of which we are large exporters and in sugar, silk and rubber of which we are large importers. Moreover, the advance in the farm prices may so increase purchasing power in the agricultural regions as to make for a genuine stimulant in business activity and thus stabilize domestic prices.

Wholesale prices have dropped 17% since last September, though in recent weeks prices have moved more sidewise than downward. If domestic prices should now become stable it would be a welcome relief to harassed business men. The outlook for an advance not only carries with it a possibility of an enlarged business activity but will also relieve the debt situation.



MONEY MEN—Left to right, outside the Treasury, after a conference on the banking emergency, are Secretary Woodin, Adolph C. Miller of the Federal Reserve Board, Professors Moley and Berle of Roosevelt's "brain trust."



YOU TELL 'EM, AL—After the technicalities of bankers, the horse-sense of Governor Smith, Senators Smoot, left, and Metcalf, right, listen to a "practical" man's exposition before the Senate Finance Committee on the way out of depression.

New Economics

Industrialists' report against gold standard, for flexible currency, on bank insolvency, and for nationalization of the Michigan Plan of banking makes strange reading to old sloganeers.

A PRESCRIPTION for the cure of our banking and currency ills has been issued by a group of business men headed by a banker which breaks all the traditions of such prescriptions from such sources. It leaves the gold standard, confidence in the banks, and balancing the budget among the forgotten remedies. Signers are Frank A. Vanderlip, Lessing J. Rosenwald, Vincent Bendix, J. H. Rand, Jr., F. H. Frazier, F. H. Sexauer, John Henry Hammond, and R. E. Wood, self-constituted "Committee for the Nation."

Conclusions, based on data gathered for them by the National Industrial Conference Board, confirm the evidence of President Roosevelt's inaugural address that the era of wish philosophy is ended. One conclusion is that "the normal process of deflation cannot be completed without such violent disturbances that the cost would be prohibitive."

Not "Radical" Now

Others that would have seemed radical only a week ago deal drastically with the banks. The committee says out loud what has only been whispered before: that many of the banks are not only frozen but insolvent and says even more loudly that the so-called "Michigan Plan" (*BW*—Mar 8 '33) should be applied on a national scale to meet this situation. Thus it calls for the segregation of liquid from non-liquid assets in each bank and for the freezing of deposits in proportion to non-liquid assets. With what deposits are left it would erect a new banking structure on the orthodox banking precepts that have been discarded since the commercial

banks descended to the tabloid stage. This means the use of demand deposits limited to self-liquidating enterprises, kept out of bonds, collateral loans, and the long-term investment field. Department store bankers please copy.

"Grotesque" Gold Standard

If the committee's sulphurous remarks about the gold standard smell of the British—and, therefore, alien—philosophy of the Macmillan Report, orthodox gold adherents are invited to make the most of them. Flatly and unequivocally they call it "grotesque" that the United States, with nearly half the world's gold holdings, should have its ability to stay on the gold standard periodically challenged by causes over which we have no control. Prophetically this "Interim Report," circulated privately some weeks ago but just now released, urges that "Congress with the least possible delay should grant powers to the President permitting him to suspend specie payment and embargo gold exports."

Worse yet from the point of view of the old régime, this destruction of the gold standard is urged only as a preliminary to regulation of the monetary system to advance and stabilize the price level. Mere currency inflation is thumbed down on the logical argument that our medium of exchange is not only money in circulation and bank credit; "readily marketable securities also form a portion" of it. But the committee embraces lock, stock, and barrel the Fisher "rubber dollar" theory. The gold content of the dollar should be varied to stabilize the price level.

While traditionalists stand agape and aghast, realists scent a refreshing breeze

in the heavy atmosphere of economic thinking in high places. Strange windows have been opened on archaic principles and ancient mores that no longer have any application to modern industrial activity.

Wool Bank

Scheme to "regulate" wool industry credit betrays more ingenuity than promise.

Wool manufacturers are not hopeful of success for the wool acceptance bank widely discussed for the past few weeks. It is a plan most carefully worked out by Emanuel Kaplan of Millbrook Woolen Mills. It will, he believes, halt the \$30 millions of annual losses of the industry and set it on the road back to prosperity.

It calls for the organization of a bank with \$10 millions of capital, to be subscribed by the mills at the pro rata of \$110 per active loom, \$1.10 per active spindle, and \$110 per active set of cards. The industry would be pledged to do all its financing through this bank, and the bank, to put it crudely, would discipline and regulate the industry through its control over credit.

Woolen men say that, in the first place, if they could raise \$10 millions, they wouldn't want a bank. In the second, while Mr. Kaplan claims adherence of 17,000 looms, there are 65,000 in the industry, and it is not to be expected that unanimous adherence can be obtained. If any considerable proportion stay outside, the plan would be ineffective. Furthermore, in spite of Mr. Kaplan's assurances some have their doubts whether it would get by the anti-trust laws.

And finally, there is a pessimistic feeling in the industry that many of its units are past saving, and that the strong would merely break themselves trying to bolster up weak units that will have to go the route of bankruptcy.

Versatile Express

New developments in "personal service" carry the Railway Express far afield.

VERSATILITY is proving a profitable virtue in the operations of the Railway Express Agency, as it has in those of the telegraph companies. Looking for new fields to conquer as old ones are invaded by what it calls "carriers that are not subject to government regulations"—which is railroadesque for "trucks"—the agency is emphasizing special services.

One of the newest is its job of "servicing" vending machines. The International Cosmetic Co. has installed coin-operated dispensers of rouge, face cream, and powder in theaters, railroad stations, and at other points where an alert merchandiser may serve a lady in need. The Express Agency, whose activities touch all points everywhere, collects the coins from these machines, distributes the supplies for them, puts in the refills, and sees that they are kept in working order.

An older service—bill collecting—in which Railway Express has engaged for anyone anywhere almost since its inception, is being emphasized at this time when bill collecting has become a major operation. This use of its widely distributed facilities is offered on a commission basis.

Of recent development in what is strictly express service is the establishment of a flat rate for boxes or standardized packages of citrus fruits to encourage visitors to Florida, California, and Texas to send grapefruit or oranges by express to the folks back home. Offices in Florida report an increase of from 10% to 50% in such "gift traffic."

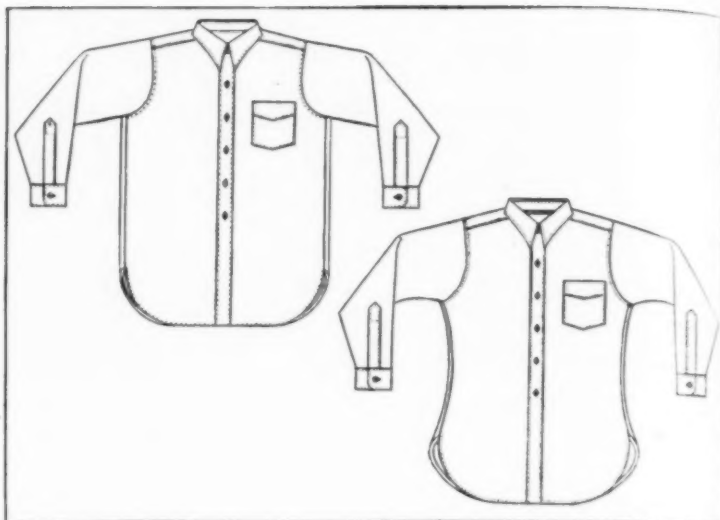
Something Extra

Tailored shirts, fitted hats reach for orders by giving customers a chance to be choosier.

CUSTOMERS can be choosier when business is begging orders. Some businesses are getting orders by giving them a chance to be. Frequently the offer is used as an escape from price cuts.

When sales were easy, hatters, by and large, obliged their customers to fit an infinite variety of skulls into headpieces cut to a standard oval. Heads that ran to sixteenths usually had to content themselves with hats sized in eighths. Today, Knox counters the depression with "ovalized sixteenths"—headgear that fits to the sixteenth with each size available in 3 oval shapes, for narrow and wide as well as standard heads.

Except for men who could afford to buy "shirtings" on a made-to-order basis, shirts have been just shirts once



SHIRT TALE—On the left, the conventional collar-attached shirt. On the right, the "Mitoga" design, developed by Arrow, which puts custom-cut curves on ready-made shirts. Sleeves, shoulders, and tails are tailored to fit the body.

you get below the collar and above the cuff, where distinction of contour ordinarily ends. Now Cluett, Peabody & Co. has gone on from Sanforizing, Vice-President Sanford L. Cluett's shrinkage-control process that prevents the washtub from turning a shirt into a strait-jacket, to the \$2 Mitoga built to end all comparisons with the potato sack.

This garment, designed for the man with a shirtings appetite and a shirt pocketbook, is shaped to follow the lines of the body, draped in at the waist to fit the lines of the body and eliminate bulging at the belt, tapered from shoulder to elbow to follow the contours of the arm. Additional points are a shoulder-line cut on a slight curve (Arrow designers say most men's shoulders curve slightly forward), and an extra flare at the hips.

To complete the job, Cluett, Peabody has sought to soothe the savage breasts of shirt-buyers by redesigning that common nuisance, the shirt-pin, topping it with a round ball in place of the flat head that baffles the searching eye and breaks the frantic fingernail.

Vice-President R. A. Kennedy reports that these are only 2 of a long list of improvements with which Cluett, Peabody is attacking a depression market. Interesting managerial tool to keep employees on their toes in making Arrow products better are "Arrow Engineering Boards." These are notice-boards posted throughout the Troy, N. Y., plant to exhibit new products or changes in old ones, to illustrate by samples, photographs, charts, etc., any points about Arrow processes, facilities and equipment that will tend to improve efficiency, draw out suggestions.

Penny Pantries

Eating places first opened for the jobless, filch customers from Detroit restaurants.

THESE depression products, the "penny pantries," are bringing gray hairs to old restaurant men in Detroit. Started as a philanthropic plan, the pantries got their rent practically free, charged a penny for each item of food, had as their purpose the feeding of the jobless. Actually they attracted other customers whose incomes have been tightly pinched by the times, were filled at all hours of the day and night. Owners discovered that they were making a little money because of the huge volume of business, competitors soon appeared, in some cases taking over large restaurant space formerly occupied by old, established Detroit restaurant chain operators, who could not stand the pace.

The original Penny Pantry, located on Detroit's busy Woodward Avenue a short distance above Grand Circus Park, boasts that in its short life it has served over 800,000 meals. Furnishings in all the penny pantries are unpretentious, all are cafeterias, but the prices vary somewhat. Bread, butter, soup usually are 1¢ each; vegetables, fruits, salads, some meats are 2¢ each; combinations are featured, such as meat and potatoes or salad for 5¢.

While penny pantries are doing a flourishing business, nearby restaurants are empty, although they have reduced prices to the point where any profit margin has vanished. Detroit now has half a dozen penny pantries, others are springing up under the impetus of the Michigan banking holiday.

Automobiles

Chevrolet's announcement of an economy model carries competition to still lower price levels.

For many months there has been a feeling that automobile competition would enter a new depression bracket. Continental and Willys were first to verify it, although Continental production has been limited, and Willys production suspended because of that company's financial difficulties. Later, Ford confirmed this feeling, when Mr. Ford made it plain that his real interest lay in the small V-8 for the hard times market. More recently, Ford began offering the present models with a 4-cylinder motor.

Now it is known that Chevrolet has been quietly stocking dealers with an economy model which, in the present state of the nation, is expected to make up a quarter of its sales in the forthcoming year.

The new Chevrolet is known as the Standard series; it has the body lines, including fender aprons and Fisher ventilation, and the general mechanical features of the Master 6 series, but minus the gadgets. Wheelbase has been shortened to 107 inches, 3 inches less than the Master 6; the engine also is slightly smaller. Prices (f.o.b.) are about \$50 below the Master series:

	Coupe	Coach	Rumble Seat Coupe
Chevrolet Standard 6	\$445*	\$455*	\$475*
Chevrolet Master 6	495	515	535
Plymouth 6	495	505*	525
Ford V-8	490	500	540
Ford 4	440*	450*	490*

*New models.

Both the new Standard Chevrolet and the Ford 4 are aimed at the fleet-owners, timed for their buying season. The telephone companies, packing houses, oil companies, and other industrial users of small passenger cars are first concerned with economy of operation, so the new cars are definitely planned for low-cost operation and maintenance.

Many individual owners, too, are concerned about economy. The new cars are the first tangible indication that major motor companies think there may be a market for plain transportation.

Ford seems in no hurry to push out the small V-8. It may be May or June before it appears in the show windows. It is said that Mr. Ford is thinking of a still cheaper possibility, a 4 which will break \$300. Meanwhile, Chrysler is not idle, a new Plymouth is on the drawing boards. The Model T market may yet get some cars.

Motor Doctor

Individual car owners are to get an expert analysis service once confined to fleet owners.

For some time, major oil companies have been offering a motor diagnosis and adjustment service to those big consumers of gas and oil, the truck and bus fleets.

Cities Service is first to bring this

service to the individual car owner. Some of its stations are already featuring the "Power Prover," the motor test board developed by Cities Service.

By local advertising, direct mail, and plain sales talk at the pump, motorists are urged to drop in for a tune-up, told how big companies have saved gas and oil by increasing the efficiency of their engines.

When the car owner arrives, professionally white-coated "motor doctors" take him in hand. The car is backed into a tiled "operating room" where the "instruments"—wrenches, gauges and the like—are neatly laid out. The Power Prover takes a sample of the exhaust gases, analyzes it to measure the amount of unburned gasoline, records on a dial the percentage of combustion efficiency.

The whole engine is gone over in the best clinical manner, timing tested, valves adjusted, wiring looked over, carburetor checked; after adjustments performance is tested again on the Power Prover.

There is no mysterious twiddling of gadgets in the manner of the garage medicine man who knew all about motors but wouldn't tell. Everything is open and aboveboard. The owner is encouraged to watch the dials and see for himself what the proper spark gap (for instance) will do to gain power, save gasoline.

For the service, a nominal charge is made; motor adjustment is included. There is also the profit on new plugs, cables. Major repairs, like valve jobs, are recommended when needed.

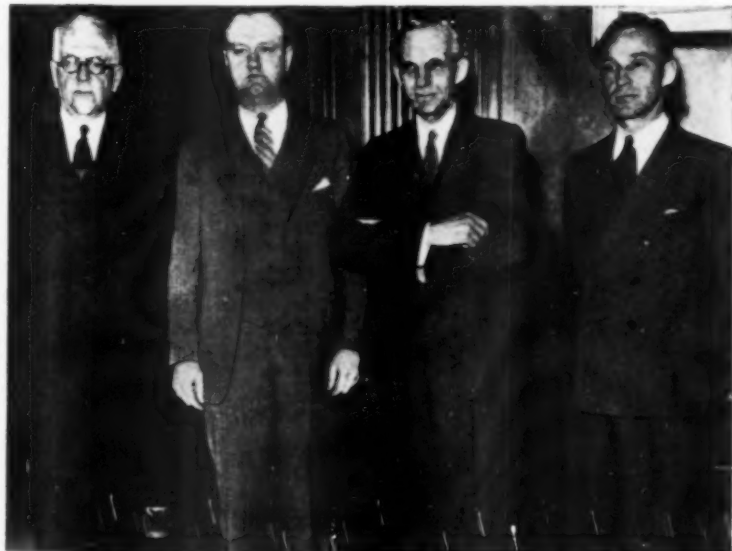
Pay-As-You-Cruise

Motor boat maker cuts the price by cutting the luxuries — which can be bought as pocketbooks grow fatter.

THE depression shows no sorrier plight than that of the maker of an inevitably high-priced product that cannot be cut down to within reach of the stricken market without sacrificing all that makes it desirable. It's a plight that has overtaken many a manufacturer and perplexed none more than the manufacturer of motor boats.

Motor boats are too much the stuff that dreams are made of. Prospects with depleted pocketbooks who would buy a cheap car and bear it too often prefer to wait until they can afford to get the kind of cruiser that they have set their hearts on. In these times—when all luxuries seem so dispensable—cutting the price of a motor boat beyond a certain limit is more likely to ruin a market than to make one.

Facing this situation, the Matthews Co. of Port Clinton, O., "designer and builder of luxurious cruising boats," has



Keystone

CONFERENCE DETROIT—Seldom seen together, Messrs. Ford and Couzens met to discuss probabilities in Detroit's confused financial situation. Left to right, Senator Couzens, his son Frank Couzens, city official, Henry Ford, and Edsel Ford.

tried out an idea of possible wide application. Up to 1932, its craft had never come cheaper than \$7,250, had sold up to \$23,000. Last year—the market being what it was—the company got a boat down to \$6,000, which it decided was about the lower limit unless it chose to go into some other kind of business than that on which it had built its reputation. This year, by adopting an entirely new merchandising plan, it has put a 38-footer on the market for \$3,880.

The "selection plan" is based on the idea that natural prospects who wouldn't be satisfied with a boat in a lower-price class can be satisfied with less boat in the regular price class if they can be assured of being able to add luxury as they can afford it; and that, in times like these, men are willing to do a little work on their boats. So Matthews sells them a stripped-down cabin cruiser with motor and service equipment complete, but little else. Then, as their pocket-books fatten, they can add cabin, galley, and cockpit furnishings, put in a forward cockpit, replace port lights by windows and otherwise bring the boat up to luxury standards. Owners can do most of the fitting up themselves, though some of the installations may need an expert hand. With the boat comes a price list covering each item of additional equipment. The final price can go up toward \$6,000, but \$4,338 will

provide all that the average comfortable boatman would consider really essential.

The company reports that this pay-as-you-equip boat is selling and likely to prove a savior in a bad year.

No Rolling

New steel mill to make billets and bars by centrifugal casting instead of rolling.

STEEL makers have experimented for years trying to find a process which will do away with the intermediate rolling of the metal. This will be at least partially achieved in the plant to be built at Detroit by Naugle & Townsend, Inc., to make billets and bars by a centrifugal casting process which will eliminate the usual blooming mill operation. The process involves the use of 100% steel scrap which will be melted in an electric furnace, then cast in a revolving receptacle so that by centrifugal action the metal is cast into the desired billets and bars.

Cold-rolled products as well as hot-rolled carbon steel bars will be made in a plant having a capacity of about 85,000 tons annually. This will be the first mill at Detroit to make cold-rolled products, thereby intensifying competition in a lucrative market. Great Lakes

Steel Corp. rolls bars, hot-rolled strip and sheets at Detroit and Newton Steel makes sheets at Monroe. Advantages of the new mill will be proximity to large customers, availability of a substantial supply of steel scrap. H. M. Naugle and A. J. Townsend, principals in the new company, are old hands at steel making, having been heads of the Columbia Steel Co. which developed a continuous method of rolling sheets and which was sold to the American Rolling Mill Co. in 1927. Steel men agree that any expansion of steel works in the next 5 years is likely to be at Detroit where steel's largest customer, the automobile industry, centers.

Stainless Steel

Lower court declares basic patent on chrome alloys invalid.

MANUFACTURERS of stainless steel pricked up their ears last week when they heard that the U. S. District Court of Baltimore had declared invalid 2 patents held jointly by Electro Metallurgical Co., a subsidiary of Union Carbide & Carbon Co., and American Stainless Steel Co. A considerable number of steel makers are licensees under these patents. Should the lower court decision be upheld, the situation would be thrown wide open, and any manufacturer be free to make chrome steel alloys.

The decision was rendered in a suit brought by the patent holders against Rustless Iron Corp. of Baltimore. Two patents were involved, one on chrome analysis of the product, one on process. Rustless Iron set up invalidity as part of its defense, and won.

Virtually all stainless steel makers are licensed under patents held by the Chemical Foundation which cover chrome-nickel composition of the product. Union Carbide and Stainless Steel Co. held a similar patent covering composition of alloys containing chrome without nickel; this is the one the court declared invalid.

The process patent was for a method which it was asserted is not in use anywhere, but which Rustless Iron was alleged to be violating. The court declared this patent also to be invalid.

Rustless Iron's own "Wile process" patent was not in litigation. It differs from others in that chromium-bearing ores are mixed with ferro-silicon ores right at the start, and the patent is on the discovered secret that there must be a substantial excess of chrome over silicon content.

Other makers, not under Wile license, first produce a billet of high chrome content—say 50%—and add it to the steel melt to get the desired final analysis.



"NOW, FOR \$1 MORE . . ."—Guests at the Hotel Roosevelt, Pittsburgh, are shown framed photographs of the types of rooms available. Attractive young women, dressed alike, replace the traditional room clerks and mail clerks.

Annual Statements December 31, 1932

THE TRAVELERS

Hartford, Connecticut

L. EDMUND ZACHER, PRESIDENT

THE TRAVELERS INSURANCE COMPANY [Sixty-ninth Annual Statement]

ASSETS	RESERVES AND ALL OTHER LIABILITIES
United States Government Bonds \$80,545,615.00	Life Insurance Reserves . . . \$559,335,165.47
Other Public Bonds . . . 88,947,727.00	Accident and Health Insurance Reserves . . . 9,475,162.90
Railroad Bonds and Stocks . . . 76,551,628.00	Workmen's Compensation and Liability Insurance Reserves . . . 46,287,060.93
Public Utility Bonds and Stocks . . . 70,477,391.00	Reserve for Taxes . . . 3,211,402.49
Other Bonds and Stocks . . . 48,065,758.00	Other Reserves and Liabilities . . . 2,226,312.35
First Mortgage Loans . . . 108,028,112.12	Contingency Reserve . . . 7,778,318.00
Real Estate . . . 26,994,694.03	Special Reserve . . . 8,039,233.50
Loans on Company's policies . . . 122,310,510.97	Capital . . . \$20,000,000.00
Cash on hand and in Banks . . . 15,086,001.79	Surplus . . . 18,139,869.67
Interest accrued . . . 10,287,629.67	
Premiums due and deferred . . . 26,498,431.14	
All Other Assets . . . 699,026.59	
TOTAL \$674,492,525.31	TOTAL \$674,492,525.31

THE TRAVELERS INDEMNITY COMPANY [Twenty-seventh Annual Statement]

ASSETS	RESERVES AND ALL OTHER LIABILITIES
United States Government Bonds \$1,714,490.00	Unearned Premium and Claim Reserves . . . \$8,166,961.76
Other Public Bonds . . . 2,209,276.00	Reserves for Taxes . . . 353,189.10
Railroad Bonds and Stocks . . . 2,948,119.00	Other Reserves and Liabilities . . . 541,808.19
Public Utility Bonds and Stocks . . . 1,623,800.00	Contingency Reserve . . . 1,627,399.00
Other Bonds and Stocks . . . 7,596,208.00	Special Reserve . . . 2,141,968.99
First Mortgage Loans . . . 312,500.00	Capital . . . \$3,000,000.00
Cash on hand and in Banks . . . 1,769,200.15	Surplus . . . 4,289,107.90
Premiums in Course of Collection . . . 1,851,561.33	
Interest accrued . . . 95,193.46	
All Other Assets . . . 87.00	
TOTAL \$20,120,434.94	TOTAL \$20,120,434.94

THE TRAVELERS FIRE INSURANCE COMPANY [Ninth Annual Statement]

ASSETS	RESERVES AND ALL OTHER LIABILITIES
United States Government Bonds \$3,024,544.00	Unearned Premium and Claim Reserves . . . \$10,266,136.84
Other Public Bonds . . . 1,228,174.00	Reserves for Taxes . . . 254,309.98
Railroad Bonds and Stocks . . . 2,469,173.00	Other Reserves and Liabilities . . . 33,724.36
Public Utility Bonds and Stocks . . . 4,170,681.00	Contingency Reserve . . . 893,292.00
Other Bonds and Stocks . . . 1,647,414.00	Special Reserve . . . 1,059,013.12
First Mortgage Loans . . . 250,000.00	Capital . . . \$2,000,000.00
Cash on hand and in Banks . . . 1,907,045.29	Surplus . . . 1,548,110.18
Premiums in Course of Collection . . . 1,229,437.36	
Interest accrued . . . 111,071.53	
All Other Assets . . . 17,046.30	
TOTAL \$16,054,586.48	TOTAL \$16,054,586.48

MORAL: Insure in THE TRAVELERS

All forms of life, casualty and fire insurance and annuities are available in The Travelers, furnishing comprehensive insurance service to individuals, families and business firms and corporations.

LIFE · ACCIDENT · AUTOMOBILE · BURGLARY · FIRE · LIABILITY · GROUP · COMPENSATION · PLATE GLASS
STEAM BOILER · WINDSTORM · AIRCRAFT · MACHINERY · INLAND MARINE



AT THE BERLIN SHOW—Small cars were featured. Here's a 4-cylinder air-cooled "N.A.G." which has a front drive and individual wheel springing. Note the tubular frame seats, the removable roof which European motorists demand.

Farm-Brewed Fuel

Farmers would make motorists pay for farm relief; gasoline producers, faced with the possibility of varying state regulations, might drop the fight to accept a single federal ruling on alcoholized gasoline.

THE tall-corn plan to aid the farmers by forcing the public to buy a little alcohol with its gasoline is entering the political stage of its development. To that extent, it is to be taken seriously, however inefficient and uneconomic it may be intrinsically.

Corn state farmers, bankers, and merchants take it very seriously indeed. Spontaneous support is considerable. Legislators, Congressmen, and editors are being bombarded with letters extolling the virtues of the mixture, quoting the experiments of one Paul Beshers, current patron saint of this old scheme in modern dress.

Where It Started

Beshers is a canning factory chemist in a small town of El Paso, Ill., where the Toledo, Peoria & Western crosses the Illinois Central about 30 miles east of Peoria and 10 south of Bloomington. Two stations east on the T.P. & W. is Gridley, population 709, where, early in January, the Lions Club held the meeting which began the active promotion of the Beshers plan, which calls for Congress to pass a law providing that motor fuels shall be blended 10% by volume with ethyl alcohol made from agricultural products grown within continental United States.

Promoted as a "plan for national economic recovery . . . for bringing

back better times," the idea has gained enthusiastic response; meeting followed meeting; collections were taken to finance more meetings, print more pamphlets. These pamphlets, sponsored by the Lions Club of Gridley, get right down to cases, show how the plan will work for the benefit of the individual, tell how to organize support for the plan with agitation in local newspapers, mass meetings, and letterwriting. Names and addresses of the members of the Senate and House agricultural committees are given. Readers are urged to write their Congressmen, Senators, farm leaders, state representatives and governors.

In quick response, Congressmen Hull of Peoria and Hall of Bloomington, both lame ducks, introduced bills (H.R. 14,627 and 14,628) providing for the 10% alcohol. Hull's bill provided for a graduated mixing, beginning with 2%; Hall wanted the 10% mixture at once. Both bills asked a 10% tax on gasoline unmixed with alcohol. While they passed out with their sponsors, the bills serve as a measure of future intentions.

Iowa has already legalized the manufacture of alcohol, a necessary preliminary. The second step would prohibit the sale of unmixed gasoline, set up the executive council to regulate the manu-

facture and sale of grain alcohol. Illinois and Indiana have equally ambitious plans.

Certain members of the large industrial groups involved are working to move the battle out of the state capitols into Congress. Viewing with considerable apprehension the prospect of several different state alcohol laws, they are inclined to compromise on a national law with provision for a nominal alcohol content.

Oil Marketers' Predicament

Naturally, no big oil company is in favor of a scheme which will cut gasoline sales by whatever percentage of alcohol is added; but all of them have a keen appreciation of the agricultural market and the decline of 30% to 50% in rural gallonage. While fighting hard against the various state measures, the Standard Oil companies, for instance, are investigating carefully the matter of a federal measure.

Automobile companies also are considering the proposal, but are not making any statements as yet.

Estimates of the benefits of the various plans do not agree. A 2% alcohol content would account for 120 million bushels of corn annually. Although only around 5% of the total corn crop, such industrial use would admittedly be an important factor in pegging corn prices because perhaps less than 10% of the crop ever crosses a county line.

Assuming that the price is pegged at 45¢ a bushel, 32 pounds of starch would cost about 32¢, if customary market credits were obtained for the by-products—corn oil and press cake. This starch would make 2½ gallons of alcohol at a net material cost of 13¢ a gallon. To be added, however, are

In Collier's a new leader has appeared among magazines—a leader, designated as such by a modern-minded American public.

THE CROWELL PUBLISHING COMPANY

ACTION

"You can't challenge prohibition. People will never stand for it."

After the avalanche of public opinion that carried the repeal resolution through Congress last month, it is almost inconceivable that such a warning could ever have been delivered seriously.

But when Collier's first opened its campaign against prohibition in 1924, there was no huge majority to applaud its stand. Astute politicians knew that people still believed prohibition would work. To a large magazine with national circulation, any open challenge of the 18th Amendment was "dynamite!"

But there were the facts. From its careful study of conditions in every state in the Union, it was obvious to Collier's that prohibition was not promoting temperance.

It had brought a wave of increased vice, corruption and lawlessness.

Collier's made its decision. An article, "They're Drinking More Than Ever," brought a storm of protest. It was followed by others on the rise of gangdom, the grafting of prohibition officials, the increased drinking among youngsters. Month after month the campaign continued without interruption—for nine years. Collier's has made enemies. It has been threatened—and sued. But it has won the respect and confidence of alert, young-minded citizens who represent the most powerful influence on public thought and action.

To the national advertiser, Collier's offers the editorial influence that has always been the backbone of advertising success.

Collier's

THE NATIONAL WEEKLY

labor, other materials, capital charges, container and transportation expense, selling expense and overhead. This estimate makes the total cost 24¢ a gallon delivered at the refineries ready to add to the gas. Addition of 2% of it to gasoline bringing 4¢ to 6¢ at refinery would increase the retail price of blended gasoline by $\frac{1}{2}$ ¢ a gallon at the very least.

Critics claim this is a lot of trouble for $\frac{1}{2}$ ¢, suggest a straight gas tax to buy corn and destroy it. They add that the 2% mixture would not satisfy the farm interests, that their suggested 10% mixture would add several cents to the retail price, bring distribution and operating difficulties.

Corn State Tests

Corn state chemists deny this. An Iowa State College committee headed by Charles E. Friley and L. M. Christensen has experimented with various makes of cars and percentages of alcohol in the gas tanks. Favorable results are reported. The Ames engineers go so far as to claim that the alcohol mixture is better than straight gas, giving an anti-knock number superior to ethyl.

In these experiments, laboratory-made absolute (less than 0.5% water) alcohol was used, which mixes freely with gasoline and stays stable even at relatively low winter temperatures. It is a point of argument, however, whether such purity can be attained commercially with any degree of economy. Ordinary ethyl alcohol runs about 2% water, needs further refining to get that water out or a third (and more expensive) ingredient, such as butyl alcohol, to make it mix with gasoline.

Proposals to boost the alcohol content to more than 2% are meeting with real opposition. The petroleum industry will continue to fight any such cut of its gallonage, and addition to its distribution problems. For the 10% mixture asked by the farm interests would have a bad effect on tanks, pumps, and cars, oil men claim, would add several cents to the price.

Cross Currents

The whole thing is very involved. On the one hand are the farmers, the corn products manufacturers, certain industrial alcohol makers whose plants would be used. On the other are the petroleum companies, the automobile makers, and the innocent consumers. The important questions of practicability (would even a 10% mixture be a real aid to agriculture with wheat, beets, potatoes struggling for their share of the bounty?) are dwarfed by the political issues.

Immediate action is doubtful; bills introduced in Congress died with their sponsors; new ones may be expected, with plenty of log-rolling, but politicians are also considering the reactions of the ultimate taxpayers.

Wage Cutting Played Out

Survey shows number of reductions lowered but, with time cuts, lay-offs and other assaults on labor costs they have left worker's buying power at 46% of 1929's.

WAGE and salary cuts are on the wane—or their possibilities have been exhausted. After reaching a peak in the first half of 1932, the number of individuals in manufacturing industries affected by wage cuts was drastically reduced in the last 6 months of the year, according to the U. S. Department of Labor.

The trend is also confirmed by the second survey of the National Industrial Conference Board on the extent and severity of salary and wage-rate reductions in leading American business concerns.

A First Survey

The first survey, of some 1,718 concerns in transportation, utility, manufacturing, mining and financial fields, covered the period from January, 1930 through April, 1932. It showed that salary reductions had been resorted to by 4 out of 5 concerns, while wage rate cuts were prevalent in 3 out of every 4. Executive salaries suffered a cut of 14.9%; other salaries 13.1%; wages 11.1% (BIF—May 4 '32). The second survey brings the study of a smaller number of companies, 1,236, down to February, 1933.

These firms now employ 1,573,665 as compared with 2,399,558 in 1929, a contraction of 34.4%. Both salary and wage cuts are now shown by 9 out of

10 concerns. The unweighted average of cuts since April, 1932, was practically the same as that made in the 2½ years preceding April, but the number of wage reductions occurring in the last 6 months of 1932 reached less than half those occurring in the first 6 months.

Making allowance for the number of individuals affected by each cut, the latest record continues to show that executive salaries suffered the sharpest deflation in the period 1930 through January, 1933, amounting to 21.9%. Other salaries followed with a cut of 18.4%, wage rates were reduced 16.1%.

Adjusted Figures

The comparison of salaries and wages, however, must be further amplified by the recognition that the income of the wage earner is dependent not only upon his hourly rate, but upon the number of hours which he is employed. When this factor is taken into consideration, it is seen that the employed industrial worker has an income only 59% as large as in 1929. The average working hours per week in manufacturing industries reporting to the Board is now but 34.9 hours against 48.4 hours in 1929. Average weekly earnings are but \$16.21 against \$28.53 in 1929.

If the income of the employed worker is multiplied by the index of employment, we discover that the earn-



UNEMPLOYED BARTER—The store in Minneapolis organized to aid barter among the unemployed. Money holidays are nothing new to these people. Here is an extra saw being swapped for preserves and onions.

chiselers

THE nemesis of quality is The Chiseler. A character created by the drama of the times, he is the modern prototype of David Harum. To the penalties of a transaction that is unprofitable to the supplier, he is blind. Believing implicitly in the adage that "A penny saved is a penny earned," he is now requiring a price based on sheer out-of-pocket costs.

Carried further, this practice of "chiseling overhead" will bring the solid rock of quality crashing down upon the buyer, and throw open the markets of the world to unscrupulous manufacturers who regard the worshipers of price as their lawful prey.

The debasement of quality can only mean the lowering of performance standards and a deeper drain upon incomes — the major variable cost-factor that still remains. Which means in turn the flight of consumer purchasing power and unfortunate social consequences.

Here at Goodrich we believe The Chiseler can no longer be permitted to speak for American Industry — which *sells* as well as *buys*. We believe his voice will soon be



submerged in a veritable clamor of voices, *until now strangely silent*, demanding recognition for quality on a record of concrete, constructive performance.

Quality is a religion at Goodrich. We are pledged to preserve it so long as American Industry will insist on genuine value in return for price . . . The B. F. Goodrich Rubber Company, Mechanical Rubber Goods Division, Akron, Ohio.

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ALL *products* *problems* IN RUBBER



GOODRICH MECHANICAL RUBBER GOODS INCLUDE . . .

Conveyor, Elevator and Transmission Belting . . . Air, Steam, Water and Suction Hose . . . Rubber Lining for Pipe, Tank Cars, Pickling and Plating Tanks . . . Packing and Molded Rubber Products . . . and a complete line of Miscellaneous Rubber Items.

ings of the industrial population are only 34.6% of what they were in 1929. Even when account is taken of the drop in living costs, the purchasing power of today's industrial population having today's wages and prices is but 46.1% of what it was in 1929.

In the face of this drastic deflation of buying power by the bulk of the American public, it is not surprising that the Board's estimate of the national income in 1932 dwindled to approximately \$40 billions, against \$52.7 billions in 1931 and \$85.2 billions in 1929. Per capita income in 1932 fell to \$320, against \$424 in 1931 and \$701 in 1929.

The severity of salary and wage reductions varies considerably among industries. Executive salaries suffered most in the furniture industry with cuts equal to 44%. Clothing manufacturing plants followed with reductions of 39%. The smallest executive cuts occurred in the pharmaceutical industry, where only 50% of the concerns reporting made any cut, and the weighted average cut was but 10.7%.

Moreover, other methods have been utilized to adjust payrolls beside a straight percentage reduction. Many plants have reclassified their jobs and employees; others have permanently demoted employees; laid off and rehired persons at lower rates; abolished bonuses; given forced vacations without pay; regulated salaries to profits made; placed salesmen on straight commission basis; reduced working hours of salaried workers with corresponding reductions in compensation. All of these methods served to reduce income of the gainfully employed to an extent not fully revealed in rate reductions alone.

Coal Wages

Arbitration fails in the anthracite fields but surreptitious wage cuts are suspected at individual mines.

GEORGE RUBLEE, for the anthracite operators, and Frank Morrison, secretary of the A.F. of L., for the miners, arbitrators named under provisions of the 1926 wage contract, deadlocked and failed to name a third arbitrator. So negotiations opened by the operators to bring about a revision of the wage scale have failed. Union officials contended all along that the provision for naming a third arbitrator was permissive and not arbitrary, and have carried their point.

But it may be a hollow victory. Already some of the high cost mines have shut down. Under such pressure, local unions do not always hold in line with the policies of union high command. There is pretty clear evidence, although such deals naturally are surreptitious, that locals here and there are agreeing

to lower wages as the price of getting any work at all.

Meanwhile, the operators are not maintaining their supposed solidarity of front any too well. Price competition is breaking out, and there are other symptoms.

But they will hang together well enough to try again for a compromise on wages. They do not want a strike; it was a strike which cost them permanent loss of part of their consumer market and another might cost them even more dearly. So they are apt to begin again with what patience they may, calling the board of 6 operators and 6 miners together again, as recommended by the 2 arbitrators, to see what can be done. The union, by the way, is not unmindful of its losses in the bituminous industry when it tried too long to maintain wage scales out of line.

Wage Offensive

New York's minimum wage move is one indication that the counter-attack on labor deflation is gathering headway.

REACTION against sweatshop conditions in the Northeastern states is slowly gathering headway. Most striking evidence is the New York state proposal, backed by Governor Lehman, for a minimum wage law for women and children.

The reaction stirs up the old competition for textile mills in which New England has long been losing to Southern states with less restrictive labor codes. New Hampshire cotton plants are alarmed by the passage of a 48-hour law through one house of the legislature. Massachusetts sees little prospect for the adoption of Governor Ely's "desperation" proposal that its code be relaxed to stem the tide of departing business. Meanwhile, there are even stirrings of rebellion in South Carolina, where an 8-hour law is under discussion.

New York's action ties up most closely with the predominant issue—whether the time has arrived for a vigorous move against the deflation of living standards and wage-earner purchasing power. The start is being made at the lower edge of the scale. One hampering feature is that, at the outset, it encounters a constitutional question. Mandatory minimum wage laws based on minimum standards of living have thrice been declared unconstitutional by the U. S. Supreme Court. Such laws still on the statute books of 9 states are largely inoperative or operated only through the voluntary cooperation of employers. Governor Lehman believes that "present-day conditions are so changed from those prevailing when



HOMER CUMMINGS—The Connecticut Democratic leader, slated for Governor-General of the Philippines, serves temporarily as Attorney-General because of the death of Senator Walsh.

the original statute was before the court that a mandatory minimum wage law based not on living standards but on the minimum value of the services rendered might well be upheld."

Legislators are also studying the Massachusetts "advisory" minimum wage law which has not been declared invalid. It fixes minimum rates for any job class in which it feels women workers are generally paid less than living costs. Employers may put these rates in effect or not as they please, but the commission may advertise the fact that specific employers don't please. Critics on both sides of the issue say that it hasn't worked well, reaches only a small percentage of women workers, has been unevenly fair to employers.

Gas Taxes Slump

For the first time since state taxes began, the revenue curve is reversed.

GROSS state gasoline taxes collected in 1932 showed a drop for the first time since Oregon imposed the first gas tax in 1919. They declined \$29 millions from \$569,789,232 in 1931 to \$540,884,000 in the year just passed.

The largest decline was in Ohio, \$5 millions; the greatest gain in New York, \$11½ millions. New York's

gain, due to a state tax increase from 2¢ to 3¢ a gallon, was less than expected.

Other states which increased their tax rates in 1932 did not do so well. Florida jumped the tax from 6¢ to 7¢, lost \$362,000; North Carolina went from 5¢ to 6¢, lost \$146,000; Mississippi went up ½¢ to 6¢, lost \$132,000; Alabama jumped it from 5¢ to 6¢, collected \$196,000 less.

This first decline in state gas taxes comes despite the attempts to offset declining gallonage by increased rates. In 1919, first year of the tax, states collected \$1,022,514, net. In 1921, the figure rose to \$5,300,000 and a new source of political profit was well on its way. In 2 years more, it reached \$80 millions, and in another 2 years, \$148 millions. Net collections in 1931 reached the high of \$536,397,458. Last year apparently set the point of diminishing returns; net collections, not yet released by the U. S. Bureau of Public Roads, are nevertheless sure to fall below the 1931 figure.

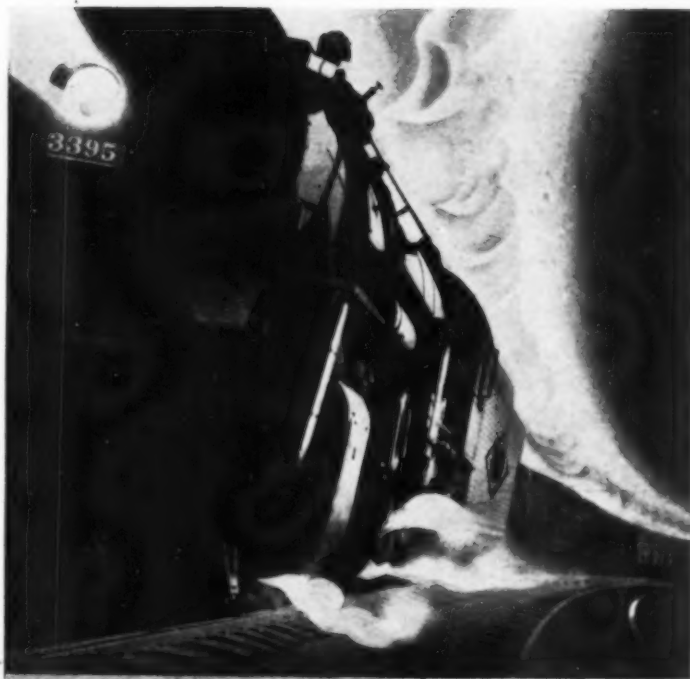
Not included, are federal, county, and city taxes totaling an estimated \$78 millions. The American Petroleum Institute estimates the grand total of all 1932 gasoline taxes to be over \$600 millions, perhaps a third of which, record proportion, was diverted to other than highway uses.

Thermometer Lease

Chicagoan's rent will go up in 1934 if *The Business Week's* thermometer shows a rise in business activity.

ON a 2-year lease of a home in Kenilworth, Ill., suburb of Chicago, the owner and the prospective tenant, all set on a monthly rental for 1933, found themselves unable to get together on a figure for 1934. The hitch, as reported by C. E. Drayer, vice-president of Bill Realty, Inc., which closed the lease, arose from the fact that the owner was a business optimist and wanted to set a higher rate for next year on the expectation of business improvement; the tenant wasn't and didn't. Solution, adopted on the owner's suggestion, was to let *The Business Week's* front-cover thermometer determine whether the '33 rate should be jumped in '34. Result: the lease, as signed directs that if the thermometer has risen 20 degrees by May 1, 1934, next year's rentals will rise 20% above the 1933 base.

This is the second Chicago report of a lease based on *The Business Week's* thermometer. A year ago (*BW*—Apr 20 '32) George W. Traver, president of the Traver Paper & Mfg. Co. of that city, leased space on a rental that was to increase as business activity, registered on the thermometer, went up. It didn't.



RUSH SHIPMENT!

THE "buy-words" OF 1933

● Machinery and merchandise, food and fuel, raw material and finished product...all are moving from producer to consumer at a faster pace than ever before. Conditions compel it, buyers demand it. Rush shipment...these have become the "buy-words" of 1933. ● And Erie translates these words into action. Erie equipment and schedules are maintained today to serve the shipper better than ever before. Believing that freight handling is as important as freight hauling, Erie offers a coordinated shipping service backed by the most complete facilities. To both buyer and shipper, "Via Erie" is a sound guarantee of shipping satisfaction.



Punctual and Dependable Freight Service to all Industries

Germany Elects Hitler

Nazi campaign threats were probably exaggerated but foreign business is not reassured by the prospect that the Reichstag will remain in assembly only long enough to give Hitler complete authority.

THE German elections are over. Hitler was victorious. The present government—which is a coalition of Nazis and Nationalists—returned a 52% majority to the Reichstag.

Now that the election is over, what does it all mean to Germany, and to the world?

The Reichstag will be called into session before the end of the month. With a majority, Hitler is expected to ask for, and receive, the power to govern without the Reichstag.

Until he has been given this power he is not likely to make any changes in the cabinet. After complete authority is given over to him, Germans will not be surprised if the Nazis ask for more than 3 positions in the cabinet.

Trap for Hugenberg?

It is significant that in the coalition "deal" Hitler renounced the 2 economic ministries which seemed to many should be vital from the viewpoint of the Nazis' economic program. But Hitler may have thought that as long as the depression does not show any decisive turn for the better, no "popularity" can possibly be gained from this end. In fact, he probably felt that it was better that Dr. Hugenberg, who holds the ministries of Economics and Agriculture, assume the responsibility for unpopular and possibly unsuccessful measures which needed to be passed. And eventually, this may offer a welcome pretext for throwing some of the Nationalists

out of the cabinet when they are no longer needed. A second explanation is that Hitler simply wanted to mark time. Meanwhile, he and his Nazi colleagues, Frick and Goering, are actively "purging" the federal and Prussian administration services and appointing their own men to all "strategical" posts. By the end of March their position will be so strong that they may risk throwing out their Nationalist friends, or squeezing them out—as the case may be.

Hitler's tardy moves to carry out his threats within the cabinet are better understood when this background is known. What effect the termination, voluntary or forcible, of the present coalition and the assumption of exclusive control by the Chancellor will have on the government's economic policy and business conditions generally can only be guessed now.

As far as agrarian policy is concerned, there will probably be no material change from the recent trend. The present cabinet has already gone so far both in the way of agricultural moratoria and the throttling of whatever still remained of agricultural imports, that there will be little left for a purely Nazi administration to do. In one respect there may be a change. The Nazis are committed, if for no other than merely demagogic reasons, to pushing the land settlement part of their agrarian program. This can only be effected on a large scale by splitting up the big

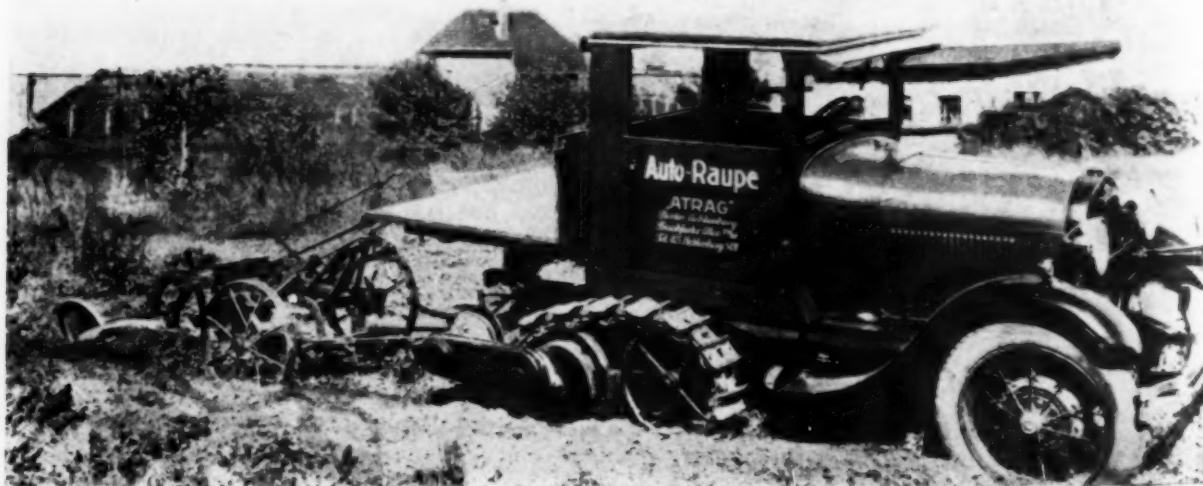
bankrupt estates of the East Prussian nobility, the Junkers. But Papen (a Junker) and Hugenberg are pledged to maintain these estates at any cost.

Greater changes may be anticipated in regard to commercial and industrial policies. This does not mean that Hitler, after assumption of power and responsibility, will be particularly eager to realize the socialistic slogans of the Nazi program. But extension of state ownership and anti-capitalist measures, directed in the first instance against department stores and similar factors of modern distribution methods, are likely to be passed.

Our Exports Hit

American interests are likely to suffer. The tariff decrees issued last week have already hit American exports of lumber and a number of agricultural products. The government hopes to eliminate all imports of wheat (except a limited quantity on an exchange basis of American hard wheat for an equivalent quantity of German low-grade wheat), and even aims at substituting domestic rye and wheat for corn as fodder. Besides American branch factories will have to face increased propaganda and prejudice against their products.

In several other fields, Hitler policy can be anticipated. He demands arms parity for Germany. As for reparations, they are dead. Private debts will be something of a problem. Hitler has made few references to them of late. Dr. Hugenberg, as Minister of Economy, and as a prominent capitalist, has stated repeatedly that interest rates on these debts must be reduced and markets opened to German products if creditors are going to demand complete payment. Neither Hugenberg nor Hitler has suggested that there be any repudiation. It is significant, however, that opinion in Germany looks for the Hugenberg-



FARM TRACTOR, MODEL A—This German device makes a crawler-type tractor out of a Ford truck. The treads and implements may be carried to the fields in the truck body. On arrival, rear wheels are removed, the treads attached.

*This is no time for a **SELLING** holiday*

A bank holiday is no excuse for a moratorium on selling to business and industry. Quite the contrary! Business and industrial buying never were conducted on a *cash and carry* basis!

Whether or not salesmen are stranded temporarily—whether or not they can make the usual number of calls on prospects and customers, advertising is still at your command. Advertising knows no holiday.

McGraw-Hill Publications, edited for business and industrial executives, are calling regularly on the very people you want to reach. They are welcome callers too, sent only to people who want and pay for them. Let them carry your message at a cost of between one and two cents per "call."

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Powder Company is taking a leading part in chemical development that is revolutionizing industry. Already one or more of hundreds of Hercules products enters, either as basic raw material or as an adjunct to processing, into most industries. And Hercules research, cooperating with far-seeing chemical users, is constantly widening the profitable application for existing Hercules products and developing new ones.

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Some of the Industries Served by Hercules Products



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HERCULES POWDER COMPANY

Wilmington, Delaware

Manufacturers of Wood Resins, Resin Derivatives, Terpene Chemicals, Steam-distilled Wood Turpentine and Pine Oil, Nitrocelluloses, Bulk and Shredded Chemical Cotton, Resin Sins, Coatings, Alums, Emulsion Oils, General Cleaners, Miscellaneous Paper Makers Chemicals, Nitric, Sulfuric, Muratic Acid, Mixed Acids, Salt Cake, General Industrial Chemicals, High Explosives, Permissible Explosives, Black Blasting Powder, Dynamites, Blasting Supplies, Red Dot and other Shotgun Powders, Rifle and Pistol Powders.

no. 30



LITTLE LINER—The new Furness ship, "Queen of Bermuda," anchors in the North River until she can join her running mate, "Monarch of Bermuda" at the pier. Both ships are short, in order to negotiate the channel at the Islands, but offer transatlantic luxury in service and appointments.

Schacht influence to weigh heavier in councils on the debts question than the more conservative opinion of Dr. Luther, still head of the Reichsbank.

It is in the field of foreign affairs that there is the greatest concern. Italy has openly made no gesture to cooperate more than usual with Germany where European politics are concerned. But there is every reason to believe that Mussolini is covering up Italy's true feeling of jubilation over the success of Hitler and the prospect of a new balance of power against the French. And the recent move of the Little Entente (Czechoslovakia, Rumania, and Yugoslavia) to strengthen their ties was no doubt precipitated by the growing probability of closer Italo-German cooperation (*Blü*—Mar 8 '33).

Neither the banking crisis in the United States nor the state of the budget in France drew the attention of the

French away from the German elections Sunday. The French are alarmed. They foresee a German-Austrian-Hungarian-Italian alliance running through the heart of Europe and separating them from their satellites.

There is one other source of worry. Hitler's campaign against the Communists was intended for home consumption only. Moscow, however, spoke a protest before it ended. Russo-German friendship, long a commercial affair, has been constantly a political worry to France. The trend under Hitler will be closely watched.

Hitler is not likely to move decisively until after the Reichstag has given him absolute authority. But before another 2 months have passed it is likely that he will have started on a strictly Nazi program. His first moves will indicate whether he will act as drastically as he has threatened in campaign talks.

People Still Cruise

Steamship lines have been smart in providing cruises to meet depression budgets. The short cruise—and cheap—has attracted thousands of travelers.

"Of course your checks are accepted as usual." This note has become a commonplace in the advertisements during the week, but when it appeared in steamship advertising within 24 hours from the time the national banking moratorium was declared it was something of an innovation.

This same aggressive selling has been evident for some time. The decline in European travel started in 1930 and the lines began to stress their shorter cruises as an "economy substitute." The cruises got shorter and shorter. Weekend cruises to such neighboring ports as Halifax or Bermuda were probably the climax to this short cruise trend.

Figures for the 1932 cruise season are out. Compared with the 1931 season, the number of passengers on the short Canadian cruises jumped more than 536%.

This is a remarkable achievement even when it is admitted that it was something new and hence that any gain would run up the percentage. The lines point with pride to the 21,000 passengers they enticed to make the trip, even when everyone was skimping on his luxuries. An occasional week-end of recreation is a necessity, and if the steamship lines can offer a cruise on one of the great liners at a nominal charge, a lot of people are going to give it a try.

Canada's Atlantic coast no doubt offers some remarkable scenery. And it is not far away. Nevertheless the countries to the south of the United States have also attracted an increasing number of travelers. A round trip to Mexico has been developed through the use of regular sailings to that country. The number of persons making the trip in 1932 jumped 149%. Nassau and Colombia were 2 other countries to draw an increasing number of tourists.

To the Spanish Main

The so-called West Indian cruises continued to attract the largest number of travelers, though the gain in this classification over the previous year was only 65%. The number of travelers making the Mediterranean and world cruises showed a decline. Only 3 world cruises were scheduled in the 1932 season compared with 4 the previous year. In fact, the number of West Indian and South American cruises declined from 81 to 56 last year, according to *Travel Trade*, showing that the lines had done a better job of booking larger boats nearer capacity.

Not all the cruise business centers in New York. The British are having good luck selling cruises to Britishers and Continentals. Last year the idea was something of a novelty. When people caught on to it they found that many of the cruises at the popular holiday season were booked to capacity. This year advance bookings are heavy. The Canadian Pacific had booked 2,300 on 46 cruises by the end of January. The P.&O. Co., outstanding for its service to the Far East, has already organized 27 cruises which range from voyages to Madeira to a Baltic cruise—short, inexpensive, and always popular with the British.

Around the Cape

Royal Mail is featuring a "cruise around Africa," entirely first-class. Bookings have been heavy. Shorter cruises will be made to the Mediterranean and to the Norwegian fjords.

White Star will feature the *Homer* in cruise service from Britain, but has also assigned 5 other vessels to the cruise business during the season, including the *Britannic*. The Blue Star and Lamport & Holt lines also are advertising a wide variety of cruises, destinations varying with the seasons. And the French line maintains itself in the British cruise service with its popular pleasure voyages to the Spanish Main and the West Indies, starting from Plymouth.

Returns from the cruise business don't compare with oldtime profits on the Atlantic run, but the lines are convinced that it is cheaper to operate vessels in the cruise business than to have them tied up, and there is always the probability that it is a good form of depression advertising of future ship travel.

Pittsburgh Fence helps control maintenance costs



PITTSBURGH STEEL CO.

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New York Chicago St. Louis
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Lack of adequate protection permits waste, carelessness and accidents which impair efficiency and make maintenance costs unnecessarily high. A good sturdy fence around your plant will help control maintenance costs.

Made of special-formula, basic open-hearth copper-bearing steel, heavily zinc coated after weaving, and erected on a strong frame of tubular steel end-posts and top rails, and solid steel "H" section line posts, all heavily zinc coated, Pittsburgh Chain-Link Fence represents the plus-values of fence protection. Let us help you estimate the cost of fencing your plant.

TOMORROW'S FORGOTTEN MAN STOPPED HIS ADVERTISING LAST WEEK

Business Abroad

Banking crisis in United States dominates week's business throughout the world. Exchanges close for varying periods. Dollar not yet officially quoted but bootleg markets discount it 15% to 20%. Commodities rise on speculative and scare buying.

Europe

EUROPEAN NEWS BUREAU (Cable)—Not the coup d'etat in Greece, not the success of the Japanese campaign in Jehol, not even the Hitler victory in the German elections held a candle to the tense interest of all the world in the American banking crisis.

Effects were immediate. Stock exchanges in every major financial capital in Europe except London closed as soon as word of the national banking holiday was received from Washington. All trading in dollar exchange was discontinued. Most commodity markets closed, at least for Mar. 4.

Stock exchanges reopened Monday and trading was revived on the commodity markets. American stocks entered into trading on the London Stock Exchange and prices generally moved upward as the week progressed. Foreign exchanges refused to quote the dollar officially but a bootleg market developed in most capitals, and there was some unofficial trading over-the-counter.

Cheaper Dollar

When markets closed Mar. 3, the last day on which the dollar was quoted officially, the pound was selling for about \$3.46. During the week it has been quoted all the way from \$3.60 to \$4,

with \$3.50 the price favored by the Bank of England as an official rate.

Paris, last great stronghold of gold which has not yet resorted to an embargo, was inclined to support the dollar. In unofficial trading, the dollar is reported to have sold in Paris at a discount up to 10%. Berlin, only technically on a gold standard, shifted the quotation of the dollar only fractionally and this, avowedly, to show that the Reichmark was not tied to the dollar.

There is no expectation that the American embargo on gold will be lifted with the termination of the national banking holiday. How far the dollar will be discounted is only a matter of speculation. Most authorities are looking for a discount of not less than 10% but not more than 15%, though quotations are likely to fluctuate over a much wider range during the first few days of open trading.

On most markets in Europe, commodity prices, except wheat, have advanced. Cotton, sugar, and all metals were conspicuous for their gains.

Branches of American banks in Europe have remained open throughout the holiday. In no case has there been a run on an American branch. Business has been confined to transactions in the currency of the country in which the branch was located.

The ultimate effect on foreign trade is likely to be good. A cheaper dollar, which is inevitable, should stimulate business with the United States, which is a major source of supply for most of the great trading countries. It would also make easier the repayment of European dollar credits to New York. But it will be distinctly unfavorable to Great Britain, Germany and France to have American products compete with theirs on a new lower exchange basis on foreign markets.

What About the Franc?

There is another matter of speculation in Europe. France is the remaining stronghold of the gold standard. Holland and Switzerland figure more or less prominently in international trade and both quote their currencies in gold. The German mark is no longer backed by adequate gold, but, through manipulation of foreign exchange with complete control in the hands of the Reichsbank, the value of the mark has remained steady at the old gold parity. What will happen to these currencies after the national banking holiday is terminated in the United States and if, as seems likely, the gold embargo is not lifted, is a matter of greater speculation among those unfamiliar with the workings of the gold standard than those who know its limitations.

At the end of a week of the American banking holiday, highlights of the luncheon table conversations in Paris, London, and Amsterdam are these:

When trading in dollar exchange is resumed, there is likely to be a discount of from 10% to 15%;

London will regain prestige, as a financial center (which passed to New York in 1931 when the British abandoned the gold standard);

France and Holland probably will not



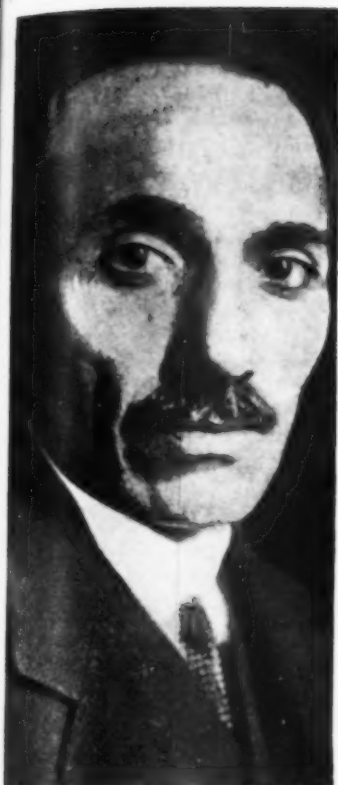
PAVEMENT DISCUSSION—London bankers gather every Friday on Lombard Street to discuss informally their tenders for treasury bills to the Bank of England. Tenders must be in by 1 P.M. Here is the pre-luncheon pavement discussion on a recent Friday. Rates on treasury borrowing have been exceptionally low over the last few months.

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Central News

PERSIA'S MAN—Mirza Mohammed Ali Khan Farzine, director of the Persian National Bank and onetime Minister to Berlin, is chief representative of the Persian government in the negotiations with the British over a new contract for the Anglo-Persian Oil Co.

be able to remain on gold if the United States embargo is continued after the end of the national banking holiday;

Britain, through the Bank of England, may declare herself an open buyer of all gold tendered at 120 shillings an ounce, thus virtually restoring Britain to gold;

London will support Washington in any move to raise commodity prices;

The United States regains some of the foreign trade advantages lost when various other large trading countries abandoned gold and were able to quote prices well below former dollar values.

Great Britain

London calm during United States banking holiday. British may attach themselves to gold. Stock markets active; gold mining shares slump. Commodities strong.

LONDON (Cable)—President Roosevelt's emergency measures have been received more calmly in London than

in Lancashire where cotton textile manufacturers have been upset by the closing of the New Orleans Cotton Exchange and later the New York Exchange.

Dealings in all foreign exchanges were suspended Mar. 4, when the news of the New York holiday reached London, but normal trading was resumed Mar. 6 except in dollars, though a rate of exchange was determined on travelers' checks to accommodate the large number of tourists always in London.

Anxiety over Dollar

The main reaction in the City, as far as foreign exchange is concerned, is the anxiety over the future of the gold standard. At present, the price of gold is fixed by the French franc, with the anticipation that if the United States is forced off the standard, Holland must follow and probably France. When this develops the Bank of England is expected to declare herself ready to take all gold offered at 120s, thus providing a fixed point in the flux of unlinked currencies, and restoring Britain virtually to the gold standard. If this development materializes, Parliament will increase the Exchange Equalization Fund another £50 millions, bringing the total amount available to the Fund to £225 millions.

Stock markets have renewed their activity following a few days of uncertainty. American stocks, when quoted, are generally rising. Gold mining shares are erratic. The uncertainty of the future of the gold standard evidently is not yet fully realized in some of the great gold regions where speculation recently reached a new climax.

Commodities have been strong all week. Cotton showed the sharpest gains, evidently due to the feeling that inflation is inevitable in the United States. Demand, however, has been steady, especially in the Far East. Metal prices were generally up. Industrially, the only gains for the week were reported from the iron and steel, and engineering industries. Beyer Peacock are working day and night shifts on an order for 20 locomotives for the Soviet government. The contract stipulates delivery within 3 months.

Labor Troubles Revived

Railroads have abandoned central wage conciliation machinery and now are seeking new negotiations directly between company executives and the unions. This return to sectional bargaining is significant as coinciding with the decision of the coal miners to press for national agreements, and implies the realignment of employers against the unions on the question of national vs. sectional agreements. All of which revives the possibility of rail and coal strikes before midsummer.

Four developments influence foreign trade prospects. The trade delegations

which have been negotiating with the Finns and the Argentines report that favorable progress has been made on tariff concessions in both directions. Australia, however, has thrown a wrench in the machinery by refusing to reduce her exports of dairy produce to Britain which interferes seriously with some of the negotiations with these 2 countries. Finally, Ireland has announced the intention of utilizing some of the Annuities funds, which have been accumulating in a suspense account during the controversy over the question, for aiding Irish farmers. At the same time, the Irish government has announced plans to make the country self-sustaining through an industrialization and diversification program which will extend over 5 years.

Hitler's victory in Germany is accepted more or less calmly. It is generally thought that Hitler would have seized power through a coup had he not won it in the elections. The fear now is that his rough tactics and rank nationalism will cause an outbreak over the Corridor. British distrust will be evident in moves by the government to cooperate with France in problems arising on the Continent. This will become more evident as Italo-German relations grow more intimate.

France

Paris realizes fate of franc is tied to developments in London and New York. Big treasury issue planned for Mar. 13. Business slightly more cheerful.

PARIS (Wireless)—After a dismal weekend due to the news of the United States banking holiday, the atmosphere again is cleared with the renewed belief that the dollar is solid except for deliberate self-undermining. Till now, the guiding principle in France has been concentrated in keeping the status quo despite the evolution of world economy with the few iconoclasts held in disrepute.

Since Saturday, it has been admitted that the ultimate fate of France is linked to the United States as well as to England and that without a solid triple entente as displayed in war times, France's destiny is as uncertain as the Sibylline leaves. This realization is intensified by the recrystallization of German nationalism as demonstrated in last Sunday's elections.

French bankers are on pins and needles because of the uncertainty of President Roosevelt's banking reorganization plans, fearing lest wanton dollar devaluation will drag along Swiss francs, Dutch florins, and finally French francs themselves, and that it will even frustrate British efforts to maintain

sterling at a sound and adequate level, something which is temporarily most essential.

It is believed in the best banking circles in Paris that, in case dollars push sterling to par, francs will be forced to push dollars back to par, the solution lying finally in an agreement to use wartime pegging methods of the 3 currencies. Already, although the dollar market is officially closed, every facility is being accorded dollar transactions which are bringing as high as 25.32. Bankers, however, prefer to make loans against security and are offering up to 80% pending the reopening of exchange. Bull point rests on heavy future dollar sales maturing in the interim and acting as a cushion against a decline.

The Chamber of Deputies has voted a 10 billion franc treasury bond consolidation loan, presumably to cover the deficit of the last 3 years though immediate needs may absorb the entire amount. The loan is expected to be issued at 4½%, priced at 90. Issue date was set for Mar. 13 but may be postponed because of the external situation.

Business generally is holding its own, and, in a few lines, is even brightening. Future developments will depend on immediate events in the field of international finance.

Germany

Hitler victory and artificial isolation of the German mark dwindle United States banking crisis and repercussions which have been felt elsewhere in Europe.

BERLIN (Cable)—For the first time in 5 years Germany has a government backed by a clear majority in the Reichstag, thus removing the constant political uncertainty which has been an important factor retarding business stabilization. The Hitler-Hugenberg coalition government returned a 52% majority in the elections Mar. 5. Hitler is at the helm in Germany (page 20).

Securities have already responded with sharp advances. Steady and increasing investment of standstill credits in German stocks and bonds is an important bull factor. Industry, however, is stagnant, because exporters are apprehensive that Hitler's extremist policy of protecting the farmer will bring retaliations abroad. During the week the tariff on eggs was jumped to 12 times its former rate and the import tax on cheese was doubled.

Domestic political issues completely overshadowed the United States banking crisis and the repercussions which dominated every other major market in Europe. Another reason for the small effect on Germany is the artificially

isolated condition of the German money and capital markets as a result of the stringent control the Reich exerts over all foreign exchange and the transfer of capital out of Germany.

Local banking opinion in Berlin does not yet believe that the United States is going off gold permanently, though it anticipates some form of managed gold-exchange currency. Should it happen, nevertheless, that the United States abandons gold, Germany will gain through the cheapening of dollar debts which are nearly two-thirds of all foreign debts. This will be true, of course, only if Germany can maintain approximately the current value of the mark. It is unlikely that Germany will abandon the present nominal gold standard unless it is absolutely forced to do so by competition of depreciated currency countries on world markets.

Prevailing expert opinion in Germany is that France, Holland, and Switzerland may stick to gold even if the dollar is off.

Despite the government decree issued late last year forbidding the opening of any new one-price stores in Germany until April, 1934, special permission has been granted to the Woolworth Co. of Germany to go ahead with plans for the opening of 4 new units which had planned to open within a week from the time the decree was announced. It is a concession to German property owners who would have lost heavily if the law had been interpreted too strictly. These 4 new shops bring the total of Woolworth stores in Germany to 82.

The Reichsbank on Mar. 4 repaid another \$16 millions of the \$100 million credit made available to Germany through the Bank for International Settlements at the time of the German crisis nearly 2 years ago. This reduces the credit to \$70 millions.

Far East

Jehol campaign overshadowed by repercussion throughout the Orient of United States banking holiday. China unsettled.

EVEN in the Far East, the success of the Japanese drive in Jehol was overshadowed by the banking crisis in the United States and the repercussions on Far Eastern business. Japanese commodity exchanges were closed following the announcement and trading was not generally resumed until mid-week. Foreign exchanges, except the dollar, were quoted by Japanese banks after Mar. 8. Dollars were unofficially quoted at a 20% discount. Industrial activity on military account continued at capacity. Imports are heavy.

Two news notes from Manchukuo are

significant. Government officials announce the consolidation of all railroads in Manchukuo except the Mukden-Shanhaikwan line (which is partially British-controlled) under the single management of the South Manchuria Railway. A building program which will include a branch line into the newly conquered province of Jehol is contemplated. Costs are estimated now at \$22½ millions.

As a result of the steady decline of Canadian trade with Manchuria, the office of the Canadian Trade Commissioner at Dairen has been shifted to Tientsin.

North China is unsettled by the success of the Japanese troops in occupying Jehol. Peiping is under martial law. Tientsin is filled with refugees and there is considerable tension between Japanese and Chinese troops in the city. As yet there is no sign that Japanese troops will move south of the Great Wall.

Latin America

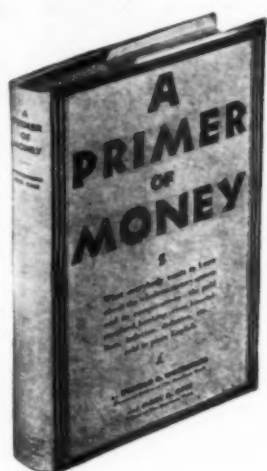
Business generally unsettled by United States banking holiday. Colombia pays on loan. Japan buys coal in Mexico.

THE banking holiday in the United States was felt throughout Latin America. In Cuba and Puerto Rico, banks closed immediately following the holiday declaration from Washington. Puerto Rico as a United States possession followed the decree. Cuba's banks are so closely related to the United States banking system and the country uses the American dollar as a medium of exchange, so it was felt necessary to stick by the regulations governing United States banks. Branches of American banks in Havana have received large shipments of cash to withstand possible runs when the holiday ends.

Branches of American banks in South America remained open this week and carried on business in domestic currencies. Dollar transactions were forbidden. No runs developed in any Latin country. Dollars were reported to be trading on bootleg markets at a small discount.

Colombia has completed arrangements to meet the full semi-annual interest payment due Apr. 1 on the remaining outstanding principal of its \$35 million American loan obtained in 1928, and to take care of all arrears in sinking fund payments on both this and the 6% dollar loan due Jan. 1, 1931, which was floated in 1927.

There is a report from Mexico City that the Japanese government has ordered 250,000 tons of coal on a trial basis, the coal to come from Coahuila state and to be shipped from a Mexican Pacific port on Japanese freighters.



PRAISE from reviewers

New York Times:

"Mr. Woodward and Mr. Rose have an admirable gift for the simple and lucid exposition of matters that usually seem to the layman to be most complicated."

Printers' Ink:

"One of the simplest and yet one of the clearest discussions of a complicated subject that has been published in these difficult times. It deserves a wide reading."

The Economist (London):

"Messrs. Woodward and Rose know what they want to say, and say it brightly and intelligently. Their book is a useful description both of the primary problems of money and of the special problems which the last ten years have thrown into relief."

The New York Sun:

"It is to give the average reader a working knowledge of the basic principles of money, credit and banking that 'A Primer of Money' has been written. Interest, bank credit, central banking, together with foreign exchange, the money market and the Federal Reserve system, all are explained in commonplace terms so that the man in the street can understand them."

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The Figures of the Week

Nationwide bank moratorium is a sudden shock to business, but the general index does not yet reflect its effect. Records of check payments are totally absent, and the current week has practically forced the country on a cash basis. Steel activity lower; residential construction better. Currency outstanding soars.

THE new Administration could not have taken over the reins of government with a more dramatic announcement than the universal closing of the banks of the United States. The suddenness of the cessation of banking functions gave no time to work out new devices for carrying on business. The result has been that custom and habit have been relied upon to a great extent. Where credit accommodations were usual, no interruption of service has occurred. More liberal extension of credit characterized other transactions. But there is no doubt that, on the whole, business volume has shrunk considerably. Cash commitments are difficult to fulfil; checks are accepted by some and rejected by others. Cancellations have become numerous in steel, textiles, and other fields.

The withdrawal of facilities for clearing checks eliminated one of the best indicators of business volume used in the *Business Week* index. Checks that have been accepted for payrolls and other trade transactions have not been recorded. The closing of the stock and commodity exchanges removes an important group of check users. Our combined index for the week ending Mar. 4, therefore, is based on the seven remaining series of which two items, coal production and carloadings, reflect conditions of the week ending Feb. 25.

Steel activity has been at such low ebb that the banking holiday can not force a very great contraction except in those centers whose recent spurt has been due to automotive demand. As *Steel* pointedly inquires—"Is it possible to fall off the floor?" Operations for the

first week of March slowed down as new purchasing took a slump. Present operations are due to business placed before the holiday.

Inability to finance freight charges or to meet payrolls is hampering many a steel concern. As soon as the currency situation assumes some order, this predicament may be remedied. Orders from such consumers have been held up for the present.

Automotive centers like Cleveland and Detroit felt the banking strain sooner than other cities, the situation becoming acute there before the country as a whole was affected. Retail sales of automobiles practically disappeared after restrictions were imposed upon deposit withdrawals. Dealers, too, encountered difficulties, since their purchases are customarily on a cash basis. Willys-Overland has practically closed down following the court's denial of permission to produce the trucks contracted for by International Harvester. In Cleveland, the Fisher Body plant is closed and Briggs Manufacturing is operating with a skeleton crew. Ford appears to be the leading motor manufacturer maintaining his production and finding the means to pay his force in cash.

Rail, structural, and pipe buying, insignificant for many weeks, continues

THE BUSINESS WEEK WEEKLY INDEX OF BUSINESS ACTIVITY

PRODUCTION

	Latest Week	Preceding Week	Year Ago	Five-Year Average (1928-1932)
Steel Ingot Operation (% of capacity)	17	19	27	67
Building Contracts (F. W. Dodge, daily average in thousands, 4 weeks basis)	\$2,666	\$2,841	\$3,773	\$11,685
Bituminous Coal (daily average, 1,000 tons)	*1,034	†1,253	1,092	1,547
Electric Power (millions K. W. H.)	1,423	1,426	1,520	1,637

TRADE

Total Carloadings (daily average, 1,000 cars)	82	86	96	137
Miscellaneous and L. C. L. Carloadings (daily average, 1,000 cars)	53	52	62	86
Check Payments (outside N. Y. City, millions)	Not available		\$3,557	\$5,023
Money in Circulation (daily average, millions)	\$6,805	\$6,032	\$5,594	\$4,833

PRICES (Average for the Week)

Wheat (No. 2, hard winter, Kansas City, bu.)	\$.44	\$.44	\$.52	\$.97
Cotton (middling, New York, lb.)	(¹) \$.062	\$.061	\$.071	\$.146
Iron and Steel (STEEL composite, ton)	\$28.35	\$28.31	\$29.53	\$33.71
Copper (electrolytic, f.o.b. refinery, lb.)	\$.048	\$.048	\$.058	\$.134
All Commodities (Fisher's Index, 1926 = 100)	55.0	55.1	62.9	85.2

FINANCE

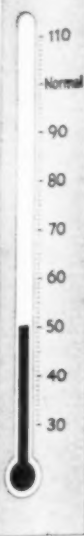
Total Federal Reserve Credit Outstanding (daily average, millions)	\$3,056	\$2,357	\$1,731	\$1,323
Total Loans and Investments, Federal Reserve reporting member banks (millions)	\$17,823	\$18,257	\$19,523	\$21,563
Commercial Loans, Federal Reserve reporting member banks (millions)	\$5,393	\$5,666	\$7,148	\$8,316
Security Loans, Federal Reserve reporting member banks (millions)	\$4,234	\$4,199	\$5,440	\$6,893
Brokers' Loans, New York Federal Reserve reporting member banks (millions)	\$418	\$429	\$495	\$3,001
Stock Prices (average 100 stocks, Herald-Tribune)	(¹) \$80.84	\$80.63	\$93.75	\$147.61
Bond Prices (Dow, Jones, average 40 bonds)	(¹) \$73.62	\$75.71	\$81.30	\$93.26
Interest Rates — Call Loans (daily average, renewal)	1.8%	1%	2.5%	4.1%
Interest Rates — Prime Commercial Paper (4-6 months)	1-1 1/2%	1-1 1/2%	3-3 1/2%	4.1%
Business Failures (Dun, number)	556	571	659	570

*Preliminary

†Revised

(¹) Mar. 2 and 3 only.

BUSINESS INDICATOR



The Index

The weekly index of general business activity, first of its kind, is compiled by *The Business Week* from 8 series of weekly figures—steel mill operations, building contracts, bituminous coal production, electric power output, non-bulk carloadings, check payments outside New York, commercial loans of reporting Federal Reserve member banks, and currency in circulation. It shows the current level of the average daily physical volume of business as compared with the normal for the season and the year. Normal, represented by 100, is what the current volume of general business activity should be if the usual seasonal changes and year-to-year growth had occurred. For further explanation see *The Business Week*, May 7, 1930, p. 39.



inactive. Municipalities, utilities, and railroads have been compelled to await developments.

The February returns on pig iron and steel ingot output are mildly encouraging, though recent radical changes in the banking situation tend to reduce the significance of the gain. The last few weeks have marked a turning point in the mild seasonal upward trend of steel production so that the outlook for March is entirely obscured. The American Iron and Steel Institute reports daily average production of steel in February 14.7% above January, lifting the operating rate from 17.8% of capacity to 20.4%. *Iron Age* reports pig iron output in February 7.8% above January.

Construction Is Still Slow

Construction in February was disappointing. The shortness of the month may account for part of the meager volume, and the rapidly spreading banking moratoria may also have been a factor, but the chief obstacle has been the slump in public works awards.

Total contracts awarded were valued at \$52.7 millions against \$83.4 millions in January and \$89 millions in February, 1932. This means a decline of 36.8% from the preceding month and 40.8% from a year ago. On a daily basis, the showing is improved, the drop being but 28.1% and 38.1% respectively.

Residential construction made the best showing of the month. Awards of \$11.8 millions were not the largest in volume, but the shrinkage from January was only 1.2%. And if account is taken of the fact that February had but 22 business days against 25 for January, the comparison reveals a 12.3% gain

over the daily average of the preceding month.

Non-residential building ranked first in volume with contracts worth \$23.7 millions, against \$28.7 in January, a decline of 17.6%, and \$36.3 millions a year ago, a decline of 34.9%. Here, too, a comparison of the daily average rate improves the picture, narrowing the distance from January to 6.4%, and from a year ago to 31.9%.

Public works and utility awards, of which the bulk is public works, totaled \$17.2 millions against \$12.7 millions in January and \$28.3 millions a year ago. This means a decline of 59.6% for the month and 39.1% for the year. On a daily basis, the decline becomes 54.1% and 36.3%.

Coal production lost practically all of the gain made in the past two weeks when cold weather stimulated production. The observance of Washington's Birthday also served to curtail output. Stocks of coal in the hands of industrial consumers were 1.7% smaller in January than in December even though consumption declined 5.1%.

Electric Power Production

Electric power production during the week ending Mar. 4 shows but a slight decline from the preceding week, though the spread from a year ago widened from 5.7% to 6.4%. The New England states showed the most marked decline. The adjusted index for the country as a whole moved down a point to 63% of normal.

The report on carloadings refers to the week ending Feb. 25, which included the holiday. A large drop in coal loadings had the greatest influence, though L.C.L. and miscellaneous load-

ings were also substantially smaller. The adjusted index remained unchanged at 48% of normal.

Rail surcharges for the year 1932 yielded only \$61,625,000 instead of the estimated \$100 millions to \$125 millions. These have been turned over to the Railroad Credit Corp. to provide a fund from which any road may borrow to meet interest payments. The 15% surcharge on freight rates remains in effect until the end of March. The roads have petitioned the I.C.C. to continue the surcharge, but to abolish the pooling of returns.

Currency circulation for the week ending Mar. 4 showed a further sharp rise of \$773 millions as a result of the widespread moratoria declared during the week. While the closing of banks undoubtedly forced a greater use of cash, the increase does not represent any corresponding increase in business volume, but rather an unreasonable demand for cashing bank deposits.

Commercial loans declined sharply as New York banks liquidated their holdings in an effort to meet the rising demand for cash in all parts of the country.

A comprehensive article on commodity prices (page 8) points out the reversal in downward trend of every leading commodity. Commodity exchanges are closed, with the exception of the Chicago Livestock Exchange, which rescinded its closing order and witnessed rising prices for cattle and hogs. The non-ferrous metal business was strong, particularly in lead, with prices higher. Cotton merchants were skeptical of the 8c cotton quotations, but gains were reported.

The Financial Markets

Reserve statement shows bank holiday came just in time to protect the gold cover. Money in circulation jumped \$818 millions, gold reserves dropped \$158 millions in the 2 days preceding it. Events leading up to the crisis that closed world's security and commodity markets.

Money

THE Federal Reserve statement issued last Thursday and officially covering the week beginning March 2—but actually covering only 2 days since banking ended for the week on Mar. 3—clearly reveals the seriousness of the situation that culminated in the national bank holiday. The President's embargo on gold and the ban on withdrawals from the banks came just in time to check the decline of the reserve ratio below the legal limit.

Gold reserves had dropped \$158 millions after a decline of \$226 millions in the previous week, an indication of the size of the raids made in the last 2 days before the holiday (see chart). On those same 2 days money in circulation jumped \$818 millions to a new peacetime record of \$7,538 millions after an advance of \$732 millions in the preceding week.

The strains to which the banks were subjected is further brought out by the fact that member banks withdrew \$239 millions from reserve deposits and increased their borrowings more than \$700 millions. Together with the decline in gold, the Reserve banks were subjected to total withdrawals of \$1097 millions. To this may be added new purchases of almost \$90 millions of bills and bonds in the open market. To meet these withdrawals they issued the amazing amount of \$636 millions additional currency. The events leading up to the final suspension of all financial transactions are epochal because of the magnitude of the transactions involved, surpassing, as they do, any peacetime transactions in the history of the country.

How It Developed

A recital of the events of the last few weeks is necessary to an understanding of the technicalities of the banking situation that now confronts the financial markets. The closing of any bank in a community immediately puts a strain upon those banks that remain open, because depositors in the closed banks, through loans from friends and business affiliates who are clients of the open banks, draw funds from these banks with which to meet their business expenditures. The closing of the Michigan banks on Feb. 14 immediately placed such strains upon the liquid resources of banks in other states, espe-

cially on banks in Chicago and New York. Corporations, business houses, and individuals throughout Michigan were calling for funds wherever business associations, friendships, or any other connection gave them access to banks in other states. As the states progressively closed their banks by gubernatorial proclamations, this strain became concentrated more and more.

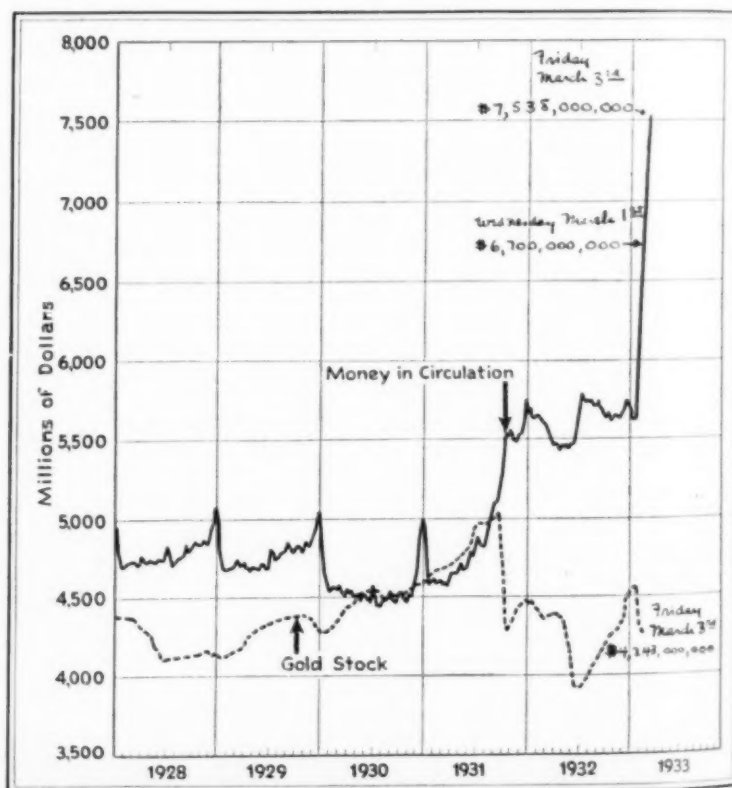
Drain on New York, Chicago

Supplementing the drain of funds for the requirements of business, there was a drain from interior banks which kept their reserves in New York or Chicago. Of the 18,000 banks in the United States, only 7,000 are members of the Federal Reserve system. The non-member banks, numbering 11,000, may keep their reserves in certain designated central banks situated mostly in New York and Chicago. The interior banks were now calling for these reserves continuously in order to obtain some liquidity. Moreover, as news of statewide closures

of banks became known abroad, foreign banks began to make heavy withdrawals of deposits from New York City or to convert these deposits into gold. Withdrawals came in large volume from Rome, Tokyo, London, Vienna, Paris, and Berlin. The total loss of gold by the Reserve Banks for the week ended Mar. 1 was \$226 millions.

Banks Sold Bonds

New York banks met these withdrawals by calling loans and selling their assets. They sold United States government bonds and other bonds, commercial paper and acceptances, and called loans of their clients. The volume of liquidation during the week preceding the inauguration was probably unprecedented in the history of the country. The bond market declined sharply, especially the high-grade bonds. The average of 120 domestic bonds dropped 7 points in the 2 weeks. The average of the long-term government bonds fell 4 points in the period. High-grade railroad bonds dropped even more sharply. Short-term money rates rose. Bankers' acceptances of 90-day maturities which had gone as low as $\frac{3}{8}\%$ in January rose to $\frac{3}{4}\%$. The New York Federal Reserve Bank, which 2 weeks ago marked its buying rate down to $\frac{1}{4}\%$, advanced it successively to $\frac{3}{4}\%$. Call loans on the Stock Exchange which had stood unchanged at 1% for many months ran up to 4%. The United States Treasury which, last December,



had marketed bills at 0.09% per annum had to offer 4.26% on its 91-day bills. Besides the New York banks selling bonds and securities, the interior banks were also liquidating, and the corporations, whose loans were being called by the banks, were now frantically out in the market seeking to convert their assets into cash.

Reserve Reveals Withdrawals

The magnitude of the transactions for the period was revealed on Thursday evening, Mar. 2, when the Federal Reserve banks published their weekly statement. It showed depletion of gold holdings by \$226 millions. During the week, the Reserve system had come to the rescue of member banks by buying from them through the open market the stupendous amount of \$204 millions of bills on top of \$143 millions the preceding week, discounting paper to the amount of \$313 millions, and permitting reserve withdrawals of \$183 millions. These huge transactions made necessary an increase in Federal Reserve notes of \$579 millions, added to \$134 millions the preceding week and \$149 millions the week before that. In 3 weeks, the amount of Federal Reserve notes in circulation had increased \$860 millions, the largest peacetime increase on record. The ratio of reserves to deposits and notes had dropped to 53.5% as against 61.2% the preceding week. The New York ratio was down to 45.8% and the Philadelphia ratio had dropped within the precarious legal limit of 40.5%.

Last Terrible Day

Though newspapers attempted to minimize the sensational character of the Federal Reserve statement on Friday morning, by merely publishing the statistical data in their financial section, and in no way calling undue attention to them, the news of the statement was electrifying. No day in financial history proved so agonizing as the Friday preceding inauguration. On top of deposit withdrawals now concentrating on New York from all parts of the United States and from banks throughout the entire world that had deposits there, were now added frightened runs of local depositors. During the day over \$100 millions in gold was withdrawn. Bonds declined further, money advanced, hoarding spread, flight from the dollar sent foreign exchange up sharply, wheat and cotton rose as frightened speculators attempted to convert their cash into commodities. It was a hectic and disheartening day that came to an end at 3 o'clock when the banks and exchanges finally closed.

We may here pause and go behind the scenes in Washington in order to find what was going on there. Ever since the Michigan banking débâcle had indicated that banking troubles would develop elsewhere, President Hoover had

been importuned to call a national bank holiday. Efforts to bring him and the President-elect into agreement on such a measure miscarried. Imploring bankers were wildly telegraphing and rushing to Washington for aid. On the day before inauguration, when financial liquidation of unprecedented magnitude was proceeding in New York, the federal government had abdicated all control of the situation. Governor Lehman, importuned by hard-pressed bankers to close the banks in New York State, had refused to assume the responsibility which he felt belonged in Washington.

New York Acts

Immediately after the closing hour on Friday, bankers began to take stock. Late that night, after the Governor had given a statement to the press that he would not close the banks in New York State, New York bankers began to arrive at his home to lay before him the results of their check-up. They showed the Governor that they could not stand even a half-Saturday of the kind of liquidation to which they had been subjected on Friday. All night the discussion, argument, telephones to Washington continued. At 4.30 Saturday morning the Governor finally consented with much reluctance to issue a proclamation closing the banks in New York State.

The effect was felt all over the world. The Stock Exchange closed; banks in Illinois and in the remaining states of the country closed; commodity exchanges suspended; the exchanges of Tokyo, Berlin, Paris, and other financial capitals, promptly closed in sympathy with New York. Only London and Canadian exchanges remained open for limited operation. All trading in foreign exchange ceased. On Saturday morning virtually the entire financial machinery of the world had ceased to operate. It was under these dramatic conditions that President Roosevelt took the oath of office at 1 o'clock.

President's Proclamation

On Monday morning, Mar. 6, came the unprecedented announcement from the new President of the closing of all banks in the United States until Thursday evening. This drastic closing was relaxed somewhat by subsequent announcements later in the week permitting the banks to cash payrolls, and honor drafts for various business transactions, mostly relating to the movement of food.

Plans to issue clearing-house certificates in New York City were superseded by arrangements to issue scrip by New York State and again superseded by the plan of the new administration to impose the "Michigan plan" on the nation. The climax of the period was reached when the hastily convened Congress conferred on the President virtually dictatorial powers to deal with the banking situation and called it a day.

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The Journal of Business News and Interpretation

MARCH 15, 1933

Nowhere to Go But Up

A HOLIDAY, the lexicographers say, is a period of rest and recuperation. The banking system is getting a chance to recuperate. It has been given time to mobilize its forces. Suspension of business for a week has done nothing in itself to mend a shaken structure, but it has allowed time to prepare a plan of campaign. Thanks to the prompt use of war powers by the President, it has become possible at last to deal with the situation boldly and broadly, not piecemeal as in the past.

For three years the bankers and the government have labored like men upon the levee that holds back a rising river. Sand bags and brush, or their financial equivalents, have been tirelessly rushed to a seemingly endless succession of danger-points where blisters or seepages were appearing. Feverishly the levee has been built higher, never more than a few inches ahead of waters that at times actually lapped over the edge. It was all futile. Disaster came. Now it is a job for engineers, planning permanent works, not for emergency squads.

Whatever the banking moratorium leads into, it already has one notable achievement to its credit. It has laid a ghost. Individuals have seen their bank accounts tied up through temporary or permanent closings in the past. Scattered communities have had their banking facilities wiped out. To most of us that experience has remained an almost unimaginable hardship. When a banking shutdown seemed to threaten upon the horizon we broke out in a collective cold sweat. Now it has happened. There have been no banks. And a little to our astonishment we find that we are still here, and that we can still eat and sleep and work and smile. Moreover, we can deal with an open crisis; we could not fight a shadow.

Beyond providing a breathing-spell, and

giving the American people a reminder of the extent of their own resources, the banking holiday sets the seal upon new guarantees for the future. Taken together with the bold and straightforward phrases of the inaugural address, it provides a new reminder that banking is a function deeply touched with the public interest. Henceforth we shall not be content to wait for periods of extraordinary stress to divide financial institutions into the sheep and the goats, the "strong" banks which survive and the "weak" ones which collapse and take their depositors with them. It should be obvious that the banking system of the United States can never be the same again. Unless there are new and sound foundations, there will be no confidence rebuilt, and without confidence, as we have so tragically seen, there can be no banks. Above all, the ancient motto "Let the buyer beware" must be banished from banks forever.

On Mar. 5, we turned a corner. The last nail had been driven into the coffin of the "natural" process of deflation. The development of plans for keeping depositors supplied with a medium of exchange while avoiding liquidation, evidences the national determination that the immobilization of purchasing power has gone quite far enough. It shows a resolve that where credit is frozen we shall find something else to take its place. There are, no doubt, a few bitter-enders who were quite prepared to see the creeping paralysis extend until we should have achieved the goal happily described by Mr. Keynes as "a budget balanced at zero on both sides." They have been overridden.

The word "inflation" is being, and presumably will be, resolutely avoided. None the less we seem to have reached the point where we are quite ready to avail ourselves of whatever merits the thing may possess. Apparently we hope to have the game without the name.

Published weekly by the McGraw-Hill Publishing Company, Inc.
350 West 42nd St., New York City. Tel. MEdallion 3-0700.
Price 20¢. Subscription: \$7.50 a year, U. S. A. and possessions.
Foreign \$10.00 or £2.10s. Cable code, McGrawhill
Publishing Director, Jay E. Mason

Editor, Marc A. Rose
News Editor, Perry Githens
Marketing, O. Fred Rost
Transportation, Irvin Foos
Foreign, J. F. Chapman

Managing Editor, Ralph B. Smith
Economist, Bernhard Ostrolenk
Statistics, R. I. Carlson
Typography, F. A. Huxley
Washington, Paul Wooton, Carter Field

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